

City of Muskegon,
Michigan

Comprehensive Annual Financial Report

For The Year Ended December 31, 2004

MUSKEGON



West Michigan's Shoreline City

**CITY OF MUSKEGON,
MICHIGAN**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2004**

Prepared By

FINANCIAL SERVICES DIVISION

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Assistant Finance Director**

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City Treasurer**

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**Candace Baker
Kathy Coleman**

COMPREHENSIVE ANNUAL FINANCIAL REPORT
City of Muskegon
December 31, 2004

TABLE OF CONTENTS

I. INTRODUCTORY SECTION

Letter of Transmittal.	5
Certificate of Achievement for Excellence in Financial Reporting.	12
Organization Chart.	13
List of Principal Officials.	14

II. FINANCIAL SECTION

Independent Auditors' Report.	17
Management's Discussion and Analysis.	19

Financial Statements

Government-Wide Financial Statements	
Statement of Net Assets.	32
Statement of Activities.	33
Fund Financial Statements	
Balance Sheet – Governmental Funds.	34
Reconciliation of Total Governmental Fund Balances to Net	
Assets of Governmental Activities.	35
Statement of Revenues, Expenditures and Changes in Fund	
Balances – Governmental Funds.	36
Reconciliation of the Statement of Revenues, Expenditures and	
Changes in Fund Balances of Governmental Funds to the	
Statement of Activities.	37
Statement of Fund Net Assets – Proprietary Funds.	38
Statement of Revenues, Expenses and Changes in Fund Net	
Assets – Proprietary Funds.	39
Statement of Cash Flows – Proprietary Funds.	40
Statement of Fiduciary Net Assets – Fiduciary Funds.	41
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds. . . .	42
Statement of Net Assets – Discretely Presented Component Units. . . .	43
Statement of Activities – Discretely Presented Component Units.	44

Notes to Financial Statements.	45
--	----

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund	
Balances – Budget and Actual	
General Fund.	78
Major Special Revenue Funds.	81
Schedule of Funding Progress and Employer Contributions –	
Pension Schedules	82

COMPREHENSIVE ANNUAL FINANCIAL REPORT
City of Muskegon
December 31, 2004

TABLE OF CONTENTS – CONTINUED

Supplemental Financial Information

Non-Major Governmental Funds

Description of Non-Major Governmental Funds.	84
Combining Balance Sheet.	86
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.	87
Combining Balance Sheet – Non-Major Special Revenue Funds.	88
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Special Revenue Funds.	89
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - Non-Major Special Revenue Funds.	90
Combining Balance Sheet - Non-Major Capital Projects Funds	92
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Capital Projects Funds.	93

Internal Service Funds

Description of Internal Service Funds.	95
Combining Statement of Fund Net Assets.	96
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	97
Combining Statement of Cash Flows.	98

Fiduciary Funds

Description of Fiduciary Funds.	99
---	----

Pension Trust Funds

Combining Statement of Plan Net Assets.	100
Combining Statement of Changes in Plan Net Assets.	101

Agency Funds

Combining Balance Sheet.	102
Statement of Changes in Assets and Liabilities.	103

Discretely Presented Component Units

Description of Discretely Presented Component Units.	105
Balance Sheet	106
Reconciliation of Total Discretely Presented Component Unit Fund Balances to Net Assets of Discretely Presented Component Unit Activities.	107

COMPREHENSIVE ANNUAL FINANCIAL REPORT
City of Muskegon
December 31, 2004

TABLE OF CONTENTS – CONTINUED

Statement of Revenues, Expenditures and Changes in Fund Balances.	108
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Discretely Presented Component Units to the Statement of Activities.	109
Schedule of Indebtness.	111

III. STATISTICAL SECTION

General Fund Revenues and Other Financing Sources by Source.	116
General Fund Expenditures and Other Uses by Function.	117
Assessed and Estimated Actual Value of Taxable Property.	118
Ten Largest Property Assessments.	119
Ten Largest Taxpayers.	120
Tax Rates per \$1,000 Taxable Value.	121
Property Tax Levies and Collections.	122
Special Assessment Levies and Collections.	123
Statement of Bonded Indebtedness.	124
Statement of Legal Debt Margin.	125
Statement of Direct and Overlapping Debt.	126
Ratio of Debt Service for General Bonded Debt to Total General Fund Expenditures and Other Uses.	127
Revenue Bond Coverage	
Sewage Disposal System	128
Water Supply System	129
Ratio of Net Bonded Debt to Assessed Value and Net Bonded Debt Per Capita.	130
Property Values, Construction Activity and Bank Deposits.	131
Demographic Statistics.	132
Labor Agreements.	135
Schedule of Insurance in Force.	136
Salaries of Principal Officials.	137

IV. SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.	141
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COMPREHENSIVE ANNUAL FINANCIAL REPORT
City of Muskegon
December 31, 2004

TABLE OF CONTENTS – CONTINUED

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance In Accordance with OMB Circular A-133.	143
Schedule of Expenditures of Federal Awards.	145
Schedule of Findings and Questioned Costs.	148
Supplemental Information	
Independent Auditors' Report on Supplement Information.	150
Schedule of Reconciliation of Revenues from Federal Sources Per Financial Statements and Expenditures per Single Audit Report Schedule of Expenditures of Federal Awards.	151
Client Documents	
Summary Schedule of Prior Audit Findings.	154
Corrective Action Plan.	156

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4371

Leisure Services
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Mayor's Office
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1214

Planning/Zoning
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FAX (231)724-
6790

Police

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March 7, 2005

Honorable Mayor and Members of the
City Commission
City of Muskegon
Muskegon, Michigan 49443

Ladies and Gentlemen:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Muskegon, Michigan, for the year ended December 31, 2004, in accordance with the requirements of state law. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This annual report is formatted to comply with the financial reporting model developed by the Government Accounting Standards Board (GASB) Statement 34.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with the financial statements. The City of Muskegon's MD&A can be found immediately following the independent auditor's report.

The City has elected not to report historic infrastructure or related depreciation costs prior to January 1, 2002 in this report as allowed by GASB 34. GASB 34 requires that this information be included in the City's CAFR by the year ending December 31, 2007; the City, intends to report this information in its 2005 CAFR.

The Comprehensive Annual Financial Report is prepared by the City's Finance Department and responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and results of operation of the City as measured by the financial activity of its various funds and component units; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's finances have been included. Brickley DeLong, P.C., Certified Public Accountants, performed the independent audit of all accounts of the City as required by state law and their report and unqualified opinion is presented as the first component of the financial section of this report.

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THE CITY AND THE REGION

The City of Muskegon is located in Western Michigan on the shores of Lake Michigan. The City covers eighteen square miles and, with a population of 40,105, is the largest city on the Eastern Shore of Lake Michigan. The City is located within the County of Muskegon and is part of the Grand Rapids-Muskegon-Holland metropolitan statistical area (MSA):

- With West Michigan's diverse industrial sector and excellent intergovernmental cooperation, the area has ranked in the top 30 out of 315 metropolitan communities in Industry Week's World Class Community annual survey for five consecutive years.
- The Muskegon-Grand Rapids-Holland area finished 13th in a national ranking of the 50 best large metropolitan areas for starting and growing a business. The survey produced annually by Cognetics Inc., a Waltham, Massachusetts-based economics research firm, compares the business climates in communities by analyzing significant new business starts and looking at the growth rate of young businesses.
- West Michigan is a fun place to be! Places Rated Almanac ranked the area No. 3 in the fun and recreation category.
- Muskegon's Pere Marquette beach has been nationally recognized as one of the best beaches in the nation by USA Today and was the only beach in the state to receive and maintain the Blue Wave Certification by the Clean Beaches Council. The Blue Wave certification identifies the nation's cleanest, safest and most environmentally well-managed beaches. In April 2003, The Detroit News voted Muskegon's Beaches #1 as the "Best Place to Run Sand Between Your Toes".
- Muskegon has become a cultural hub for West Michigan with many museums and live performances. The Muskegon Museum of Art has the third best art collection in the Midwest, and the Muskegon County Museum provides insight into the area's history. The former residences of Muskegon's lumber barons, Charles H. Hackley and Thomas Hume, proudly display the glory of the Victorian ages. The Fire Barn Museum takes visitors back to a 1890s Muskegon Fire Station. The West Shore Symphony and Muskegon Civic Theater bring the stage of The Frauenthal Center for the Performing Arts to life throughout the year. The Great Lakes Naval Memorial and Museum allows visitors to step back in time and tour the USS Silversides, a surviving World War II submarine.

The City operates under a Commission-Manager form of government and provides the full range of traditional municipal services. These include police and fire protection, parks and recreation activities, public works operations, water and sewer services, parking facilities, solid waste collection, community development and general administrative support services. The City also provides treated water to a number of surrounding communities on a wholesale basis.

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COMPONENT UNITS

The City has three discretely presented component unit types. These entities are discretely presented in the financial statements as the governing boards of the component units are substantially the same as the City's governing board:

- The Downtown Development Authority (DDA) which exists primarily for the purpose of financing redevelopment activities in the City's downtown area. The DDA has issued bonds that are repaid through tax increment revenues generated by development within the Authority's boundaries.
- The Tax Increment Finance Authority (TIFA), which exists primarily for the purpose of financing redevelopment activities in a sub-section of the City's downtown area. The TIFA generates tax increment revenues through development within the Authority's boundaries.
- The Local Development Finance Authority issues bonds for development activities in the City's industrial park and high-tech park areas. Bonds are repaid through tax increment revenues generated by development within the Authority's boundaries. The City has created three separate local development finance authority districts under the aegis of the Local Development Finance Authority (LDFA).

LOCAL ECONOMIC CONDITION AND OUTLOOK

Muskegon is fortunate to have a diverse local economy. The manufacturing sector is strong in the areas of aerospace, chemicals, plastics, metals and castings, office furniture and automotive parts. The City of Muskegon also benefits from being home to large government, corrections, healthcare, and educational employers. Local income tax withholdings remitted by these otherwise tax-exempt employers help provide stability to City finances. According to the W.E. Upjohn Institute, employment growth for Muskegon County in 2004 was 0.1%. The employment growth rate is projected to be 0.7% in 2005 rebounding to 0.9% in 2006.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Among the City's major initiatives and accomplishments in 2004 were the following:

- A new \$18 million high-speed cross-lake ferry service linking Muskegon with Milwaukee, Wisconsin began operating in June. First year results exceeded expectations with more than 110,000 passengers taking the ferry – including 2004 presidential candidate John Kerry. The City and County assisted in this project by providing site improvements costing \$1.85 million. Ferry operations will restart in May 2005.
- Work was completed on phase one of the renovation of a former office equipment manufacturing plant into loft-style condominium units. The obsolete plant comprises nearly one million square feet of space and is well suited for residential living being located directly across from the downtown municipal marina and waterfront. The first phase of this project included construction of 53 one to

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three bedroom condominium units. Construction of the second phase is scheduled to begin in June 2005 and will include 12,000 square feet of commercial retail space.

- Work was completed on construction of the \$11 million extension of Shoreline Drive. The new road is scheduled to be designated as *Business US-31* and will route 23,000 vehicles along the city's downtown waterfront.
- The former Downtown Mall property was substantially demolished and cleared for redevelopment. The 21-acre site will be redeveloped as mixed-use residential and commercial site. The Downtown Muskegon Development Corporation is spearheading this effort and the City and County have assisted through the granting of a tax-free "renaissance zone" status and through financial participation, primarily in the form of state and federal grants. At this time grants have been secured to finance a large portion of construction of the public infrastructure and work will commence in June 2005.

OTHER INFORMATION

INTERNAL ACCOUNTING CONTROLS

The City's management is responsible for establishing and maintaining an internal control structure that is designed to ensure adequate protection of the City's assets from loss, theft, or misuse, and adequate accounting data to allow for preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

BUDGETARY CONTROL

Budgetary control is maintained through an annual budget resolution passed by the City Commission. Budgetary control at the functional level is maintained by review of estimated expenditures prior to making purchases. Purchases that result in over expenditure of budget levels are not made until additional appropriations or budget changes are processed to make funds available.

Encumbrances are not recorded in the City's funds. The City does, however, utilize an informal monitoring system to facilitate budgetary control over proposed purchases. Essentially, this system entails the use of on-line budgetary information that details year-to-date "actual versus budgeted" expenditure comparisons by budget category. This information is accessible to appropriate personnel to enable them to ascertain the budget status of an expenditure category prior to authorizing additional purchases.

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DEBT ADMINISTRATION

At December 31, 2004, the total of City bonds and contractual debt outstanding (including discretely presented component unit debt) was \$37,220,322 as compared to \$31,778,823 at December 31, 2003. During the year, the City drew down \$8,483,766 through the state's low-interest Drinking Water Revolving Fund to finance water filtration plant improvements. A total of \$13.9 million will be borrowed through this program to complete the filtration plant project. Standard & Poor's has affirmed the City's general obligation debt rating of **A**.

CASH MANAGEMENT AND INVESTMENTS

Temporarily idle cash from the City's various funds is invested through management of a common pooled cash and investments system. Maturity of investments are timed to meet the City's cash needs. Investment instruments generally consisted of U.S. Treasury Bills and Notes, government agency securities, high quality commercial paper and liquid money-market funds. Daily liquidity needs are managed by investments in money-market funds of all cash not needed in the common checking account to cover checks and other debits presented to the bank for payment that day. The City has contracted with MBIA Municipal Investors Service Corporation to provide full-time, non-discretionary management of the City's operating funds portfolio.

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The City of Muskegon sponsors two locally-administered defined benefit pension programs: the *Police and Fire Retirement System* for uniformed police and fire personnel and the *General Employees' Retirement System* for all other full-time employees. Each year an independent actuary engaged by the respective pension boards calculates the annual contributions that the city must make to ensure the retirement systems are able to meet current and future obligations. Both of the City's retirement systems are over fifty years old and the City has a longstanding policy of fully funding each year's contribution requirements as determined by the actuary.

The City also provides post-retirement health benefits for retirees and their dependents. Since 1987, the City has also had an actuarial valuation of its post employment healthcare obligation performed each year and has followed a program of prefunding the obligation in the same manner as the pension obligations. GAAP does not currently require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

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RISK MANAGEMENT

During 2004, the City continued participation in the Michigan Municipal Risk Management Authority (MMRMA), an intergovernmental cooperative self-insurance program. The MMRMA offers secure liability and property insurance coverage with premium stability and broad coverage at a competitive price. The City is insured up to \$15 million with a \$100,000 deductible per occurrence for general, auto, public official and law enforcement liability. Since the City began participating in the MMRMA program in March 1986, total incurred losses and expenses (exclusive of reinsurance recoveries) have been \$7,416,923.

SINGLE AUDIT

The City is required to have an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of State, Local Governments and Non-Profit Organizations". Information related to the single audit, including the schedule of federal awards, findings and questioned costs, and auditors' reports on internal control over financial reporting and compliance with certain laws, regulations and grants are included herein. The financial activities related to the single audit requirements, such as the Community Development Block Grant Program, are also included in this financial report.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Muskegon for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2003. This was the nineteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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ACKNOWLEDGEMENTS

The preparation of this report could not be accomplished without the dedicated and efficient services of the staff of the Financial Services Division and the Muskegon County Print Shop. We would also like to thank the members of the City Commission for their continued interest and support in conducting the financial affairs of the City in a responsible and progressive manner and for their efforts in working for the betterment of the Muskegon community.

Respectfully submitted,

A handwritten signature in cursive script, reading "Bryon L. Mazade".

Bryon L. Mazade
City Manager

A handwritten signature in cursive script, reading "Timothy J. Paul".

Timothy J. Paul
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Muskegon,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



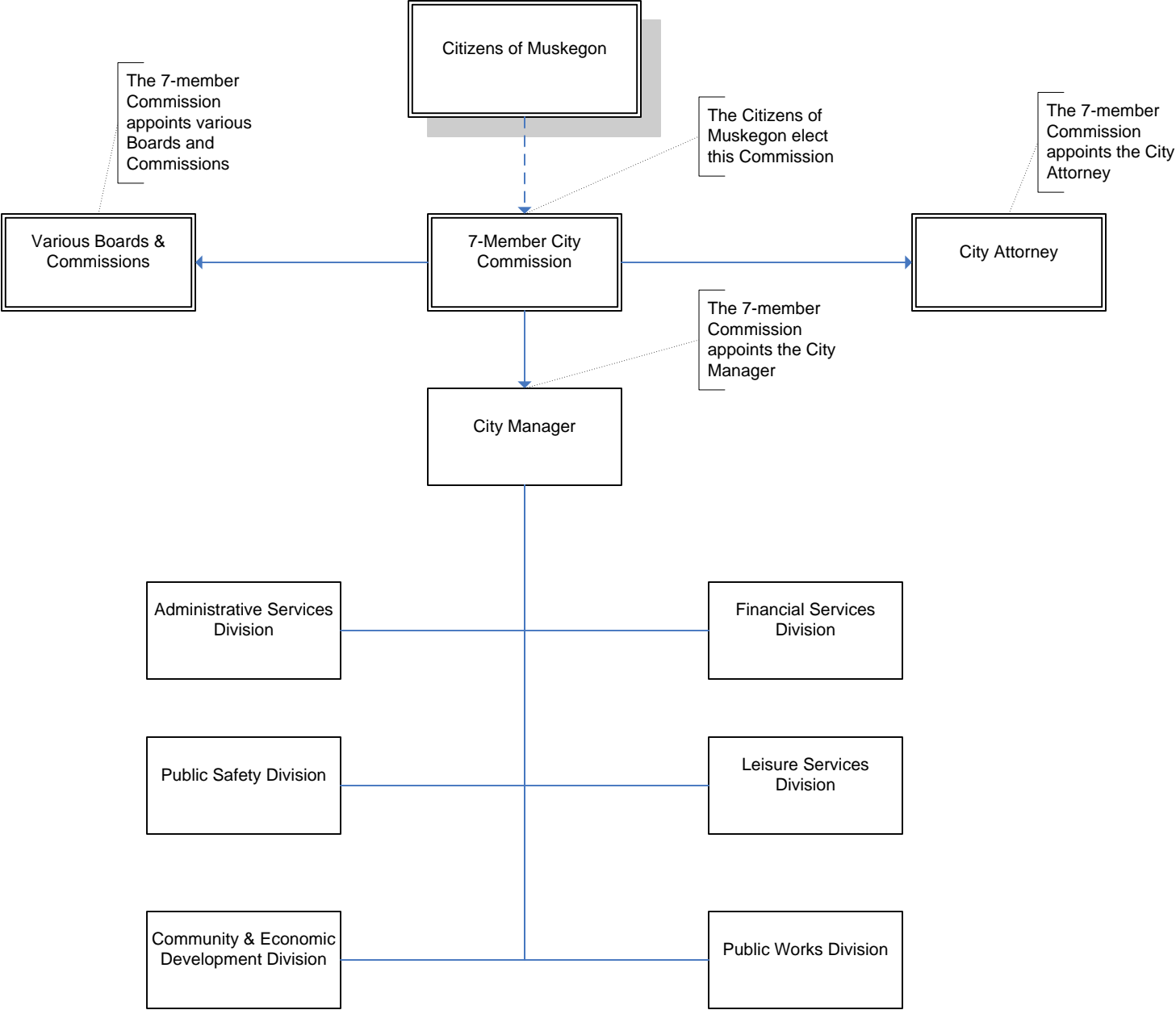
Nancy L. Zielke

President

Jeffrey R. Emer

Executive Director

City Of Muskegon Organizational Chart



**CITY OF MUSKEGON, MICHIGAN
LIST OF PRINCIPAL OFFICIALS**

December 31, 2004

ELECTED OFFICIALS

Mayor-Commissioner. Steve Warmington
At Large

Vice Mayor-Commissioner. William Larson
At Large

Commissioner. Chris Carter
Ward 1

Commissioner. Clara Shepherd
Ward 2

Commissioner. Lawrence O. Spataro
Ward 3

Commissioner. Kevin Davis
Ward 4

Commissioner. Stephen J. Gawron
At Large

APPOINTED OFFICIALS

City Manager. Bryon L. Mazade

City Attorney. John C. Schrier

Director of Finance. Timothy J. Paul

FINANCIAL SECTION

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

March 7, 2005

City Commission
City of Muskegon
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon, Michigan (the "City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Muskegon, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2005, on our consideration of the City of Muskegon, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City Commission
March 7, 2005
Page 2

The management's discussion and analysis and the required supplementary information on pages 19 through 29 and 77 through 82 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Muskegon, Michigan's basic financial statements. The introductory section, supplemental financial information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Muskegon, Michigan. The supplemental financial information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Brickley DeLong, PLLC

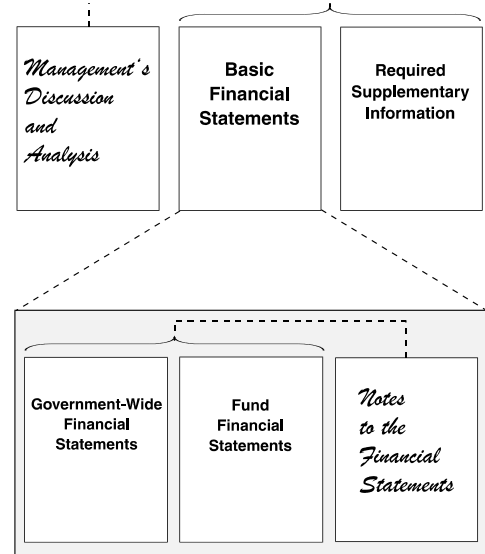
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Muskegon's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2004. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total combined net assets were \$94,360,144 at December 31, 2004, an increase of \$8,160,148 (9.5%) over the prior year. Most of this increase is attributable to tight cost controls and an increase in water user fees implemented during the year. Of the total net assets, \$16,055,071 was unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- During the year, the City's total expenses for both governmental and business-type activities were \$37,958,125, a decrease of \$531,514 (-1.4%) from 2003. Of the total 2004 expenses:
 - \$14,370,405 (38%) was paid through direct charges (such as water fees) to benefiting parties. In 2003, 35% of total expenses were paid from direct charges;
 - \$12,452,103 (33%) was paid by grants and contributions, primarily from the state and federal governments. In 2003 the share of expenses paid from this source was 43%; and
 - The remaining portion was paid from state shared revenues, local income and property taxes, and other locally generated revenues.
- The City's general fund reported a fund balance of \$2,445,191, a slight increase of \$13,773 from the prior year. The City also maintained a budget stabilization (or "rainy day") fund that reported a fund balance of \$1.25 million at December 31, 2004, a decrease of \$250,000 from 2003.
- During 2004, the City issued \$13.9 million in Drinking Water State Revolving Fund (DWSRF) debt. These funds are being used to finance improvements at the City's water filtration facility.

Figure A-1, Required Components of the City's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required*

supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting individual City operations in greater detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains available for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about activities the City operates *like private businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include detailed notes that explain some of the information in the financial statements and provide additional data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the City's financial

Figure A-2. Major Features of the City's Government-Wide and Fund Financial Statements

Type of Statements	Fund Statements			
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses.	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	• Statement of net assets	• Balance sheet	• Statement of net assets	• Statement of fiduciary net assets
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses and changes in fund net assets • Statement of cash flows	• Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's overall financial health or *position*. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. However, to assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements include not only the City of Muskegon itself (known as the *primary government*), but also legally separate *component units* for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements of the City include the *governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, economic development, parks and recreation, and interest on long-term debt. Income taxes, property taxes and revenues from the State of Michigan finance most of these activities. The government-wide financial statements can be found beginning on page 32 of this report.

Fund Financial Statements

The fund financial statements beginning on page 34 provide more detailed information about the City's major *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law or other legal requirements.
- The City Commission establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the user determine

whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page of the governmental funds statements that explain the relationship (or differences) between them.

- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- We use *internal service funds* to report activities that provide supplies and services for the City's other programs and activities.
- *Fiduciary funds*—The City is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.
- *Component units* – Finally, the City of Muskegon's Comprehensive Annual Financial report includes three component units: the Downtown Development Authority (DDA), the Tax Increment Finance Authority (TIFA) and, the Local Development Finance Authority (LDFA), which contains three sub-districts. Component units are separate legal entities for which the City of Muskegon has some level of financial accountability. The component units of the City exist primarily for the issuance and repayment of debt to finance projects in specific areas of the City. Accordingly, they are discussed below under the *Capital Assets and Debt Administration* heading.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

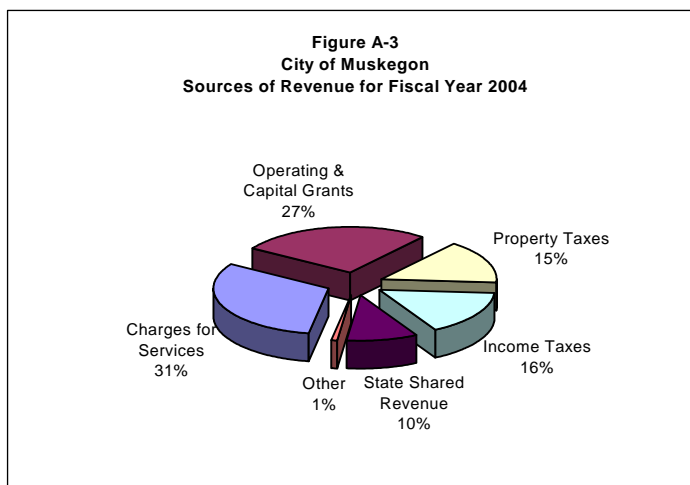
Net assets. The Statement of Net Assets provides an overview of the City's assets, liabilities and net assets. Over time this can provide a good indicator of the City's fiscal health. A summary of the City's net assets follows:

City's Net Assets
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2004	2003	2004	2003	2004	2003	2004-2003
Current and other assets	\$28,758	\$32,654	\$13,645	\$13,539	\$42,403	\$46,193	-8.2%
Capital assets	46,420	39,203	52,488	41,352	98,908	80,555	22.8%
Total Assets	75,178	71,857	66,133	54,891	141,311	126,748	11.5%
Long-term liabilities	7,389	8,615	22,283	15,328	29,672	23,943	23.9%
Other liabilities	14,508	16,161	2,772	444	17,280	16,605	4.1%
Total Liabilities	21,897	24,776	25,055	15,772	46,952	40,548	15.8%
Net Assets							
Invested in capital assets, net of related debt	40,664	32,120	31,609	27,809	72,273	59,929	20.6%
Restricted	5,210	5,674	822	822	6,032	6,496	-7.1%
Unrestricted	7,407	9,287	8,648	10,488	16,055	19,775	-18.8%
Total Net Assets	\$53,281	\$47,081	\$41,079	\$39,119	\$94,360	\$86,200	9.5%

The total net assets of the City were \$94,360,144 as of December 31, 2004. This represents an increase of \$8,160,148 over the prior year. This change is explained more fully below.

Changes in net assets. The City's total revenues were \$46,118,273. A significant portion (31%) of the City's revenue stream came from charges to users of specific services such as water or sewer (See Figure A-3). Another twenty-seven percent came from various grants from the state and federal governments and thirty-one percent was from local property and income taxes. The remainder was comprised of state-shared revenues (10%) and various other sources such as interest income.



The total cost of all City programs and services during 2004 was \$37,958,125, representing a decrease of \$531,514 from 2003. Seventy-eight percent of these costs were for governmental activities such as police and fire protection, streets, parks, and general administration. The remaining twenty-two percent represents business-type activities operated by the City, specifically, for water, sewer and marina operations.

The difference between the City's total revenues and expenses (\$8,160,148) represents the increase in total net assets for 2004. The increase is primarily attributable to a combination of tight cost controls, an increase in water user charges, and receipt of grants to finance infrastructure improvements. The following table (*Changes in City's Net Assets*) further breaks down the change in total net assets into year-to-year changes in individual revenue and expense categories:

Changes in City's Net Assets (In thousands of dollars)							
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2004	2003	2004	2003	2004	2003	2004-2003
Program revenues							
Charges for services	\$5,043	\$4,917	\$9,328	\$8,463	\$14,371	\$13,380	7.4%
Operating grants and contributions	6,009	5,614	-	-	6,009	5,614	7.0%
Capital grants and contributions	5,786	10,495	658	256	6,444	10,751	-40.1%
General revenues							
Property taxes	6,962	7,029	-	-	6,962	7,029	-1.0%
Income taxes	7,327	6,645	-	-	7,327	6,645	10.3%
State shared revenues	4,645	4,939	-	-	4,645	4,939	-6.0%
All other	167	719	194	(17)	361	702	-48.6%
Total revenues	35,939	40,358	10,180	8,702	46,119	49,060	-6.0%
Governmental activities expenses							
Public representation	867	888	-	-	867	888	-2.4%
Administrative services	1,132	1,228	-	-	1,132	1,228	-7.8%
Financial services	1,809	1,843	-	-	1,809	1,843	-1.8%
Public safety	12,164	11,583	-	-	12,164	11,583	5.0%
Public works	2,848	2,947	-	-	2,848	2,947	-3.4%
Leisure services	2,468	3,042	-	-	2,468	3,042	-18.9%
Planning and economic development	2,653	3,371	-	-	2,653	3,371	-21.3%
Highways, streets and bridges	3,880	3,483	-	-	3,880	3,483	11.4%
General administration	1,725	1,601	-	-	1,725	1,601	7.7%
Interest on long-term debt	193	224	-	-	193	224	-13.8%
Business-type activities expenses							
Water	-	-	4,123	4,538	4,123	4,538	-9.1%
Sewer	-	-	3,745	3,416	3,745	3,416	9.6%
Marina	-	-	352	326	352	326	8.0%
Total expenses	29,739	30,210	8,220	8,280	37,959	38,490	-1.4%
Change in net assets	6,200	10,148	1,960	422	8,160	10,570	-22.8%
Net assets at beginning of year	47,081	36,933	39,119	38,697	86,200	75,630	14.0%
Net assets at end of year	\$53,281	\$47,081	\$41,079	\$39,119	\$94,360	\$86,200	9.5%

Governmental Activities

The following table (*Net Cost of Selected City Functions*) presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and related intergovernmental aid). The net cost reflects what was funded by local tax dollars and other general resources.

- The operational cost of all governmental activities during 2004 was \$29,738,442. This is a slight decrease from 2003 as the City continued to reduce costs in response to economic conditions and falling state-shared revenues.
- The net cost that City taxpayers paid for these activities through local taxes was \$14,289,264, or about 48% of the total.
- The remaining cost was paid by user charges to those who directly benefit from the programs or by state and federal grants and contributions.
- Revenues for highways and streets function exceeded program costs because the City's historic infrastructure or related depreciation costs are not yet recorded. GASB 34 requires that this information be reported by the year ending December 31, 2007. The City plans to include this information in the 2005 CAFR.

Net Cost of Selected City Functions
(in thousands of dollars)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2004	2003		2004	2003	
Governmental activities						
Public safety	\$12,164	\$11,583	5.0%	\$10,814	\$10,210	5.9%
Planning and economic development	2,652	3,371	-21.3%	(994)	(351)	183.2%
Leisure services	2,468	3,042	-18.9%	1,117	1,717	-34.9%
Highways and streets	3,879	3,483	11.4%	(4,186)	(9,220)	-54.6%
Public works	2,848	2,947	-3.4%	1,858	2,290	-18.9%
All other	5,728	5,784	-1.0%	4,292	4,538	-5.4%
Total governmental activities	\$29,739	\$30,210	-1.6%	\$12,901	\$9,184	40.5%

Business-Type Activities

The financial goal of the City's business-type activities (i.e. water, sewer and marina operations) is to operate on a more or less "break-even" basis without making significant profit or needing general tax subsidies. For 2004 this goal was achieved with the City's total business-type activities realizing an overall increase in net assets of \$1,959,918. These funds were used to pay debt principal and invest in capital assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The analysis of the City's major funds begins on page 34 of the CAFR report, following the government-wide statements. The fund financial statements provide detailed information about the major City funds, not the City as a whole. The City's major funds for 2004 were the general fund and the major and local street funds.

General Fund Budgetary Highlights

The general fund receives the most public attention since it is where local tax revenues are accounted for and where the most popular municipal services such as police, fire and parks are funded. The City reforecasts its general fund budget on a quarterly basis to take into account changing economic conditions and policy priorities. The quarterly budget reforecasts were particularly relevant in 2004 due to the turbulent state and national economies. A \$250,000 transfer from the City's rainy day fund was needed at year-end to offset state shared revenue losses and maintain the City's target fund balance. The following table shows the general fund year-end fund balance for the last five years:

Year	Year-End Fund Balance	Year-to-Year % Change	Prior Year's Expenditures and Other Uses	Fund Balance as a % of Prior Year Expenditures (Policy Target = 10%)
2004	\$2,445,191	+0.5%	\$ 23,705,334	10.31%
2003	2,431,418	-13.4%	23,971,536	10.14%
2002	2,807,996	-11.2%	23,235,978	12.08%
2001	3,162,368	+7.1%	22,232,657	14.22%
2000	2,951,735	-	22,011,881	13.41%

Actual 2004 general fund expenditures were \$430,022 below original budget amount. Most of this variance occurred in the areas of salaries, benefits and other operating costs as the City continued to manage its way through a difficult economy.

General fund revenues in 2004 were \$440,724 more than originally budgeted. The positive variance is attributable to higher than anticipated local income tax collections resulting from stringent enforcement and the success of an amnesty program for delinquent taxpayers. Under this program, delinquent taxpayers were given a short-term, one-time opportunity to bring accounts current without penalty. The higher than expected income tax revenues helped to offset other revenues losses. Most significantly, state shared revenues were \$354,652 under original budget due to continued faltering state sales tax collections and cutbacks by the state.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the City and its component units had invested \$102,920,150 in a wide range of capital assets, including land, equipment, buildings, water and sewer lines, and vehicles. In addition the City reports infrastructure assets, including roads, bridges, sidewalks, and storm sewers acquired or improved since the start of 2002. In future years, the City will also include historical infrastructure asset investments made between 1980 and 2002. Note C of the notes to the basic financial statements provides detailed information on the City's capital asset investment.

The City's fiscal year 2005 capital budget anticipates spending \$18,454,400 for capital projects principally street and water system improvements. These improvements will be funded through grants, loan proceeds, and operating revenues.

Bond Ratings

The City's limited full faith and credit bonds (i.e. bonds guaranteed by the City's general taxing powers) presently carry a Standard & Poors rating of "A".

Long-Term Debt

At year-end the City had \$27,926,199 in bonds and notes outstanding as shown below. This represents an increase of 25.2% over the prior year as new water fund debt in the amount of \$13.9 million was issued for the purpose of financing water filtration plant improvements. Of the total \$13.9 million, \$8,483,766 was drawn during 2004; the remaining \$5,416,214 will be drawn in 2005 to complete the project. Additional information concerning the City's long-term debt is presented in Note D to the basic financial statements.

City's Long Term Debt (In thousands of dollars)							
	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004-2003</u>
Bonds and loans payable	\$5,821	\$7,159	\$22,105	\$15,138	\$27,926	\$22,297	25.2%
Long-term absences payable	<u>1,568</u>	<u>1,456</u>	<u>178</u>	<u>190</u>	<u>1,746</u>	<u>1,646</u>	6.1%
Total bonds & notes payable	\$7,389	\$8,615	\$22,283	\$15,328	\$29,672	\$23,943	23.9%

In addition to the City's debt, component units such as the Downtown Development Authority (DDA) and Local Development Finance Authority (LDFA) had outstanding debt totaling \$9,206,982 at year-end as shown in the table below. Debt issued by the component units typically is secured by the limited full faith and credit of the City and so is an important consideration in assessing the City's overall fiscal health. Additional information concerning component units' long-term debt is presented in Note D to the basic financial statements and is summarized as follows:

Component Unit Long Term Debt (In thousands of dollars)							
	Downtown Finance Authority		Local Development Finance Authority		Total		Total Percentage Change
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004-2003</u>
Bonds and loans payable	\$4,490	\$4,670	\$4,716	\$4,716	\$9,206	\$9,386	-1.9%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City depends on five major sources of revenue to fund its operations: local income taxes, local property taxes, state-shared revenues, state street funds, and water and sewer utility fees. Together, these five income sources account for nearly seventy percent of the City's total 2004 revenues. Meaningful discussion of the City's finances centers on the outlook for these major income sources.

Local Income Tax

The City income tax was approved by voters in 1993 and now is the primary source of funding for police, fire, parks and other general operations. The tax rate is 1% on city residents and ½ of 1% on non-residents who work in the city. The income tax provides key advantages for urban core cities such as Muskegon. First, it allows the City to regionalize its tax structure by taxing non-residents who work here and use City services and by allowing the City to benefit from development occurring outside the City limits. A second major advantage is that it generates revenue from employees working at hospitals, churches, government agencies, colleges and other institutions traditionally exempted from paying property taxes. This is particularly important for Muskegon since six of the ten largest income tax sources are such institutions. Income tax revenues increased from \$6,542,355 in 2003 to \$7,033,387 for 2004 (+7.5%) due primarily to aggressive compliance efforts including a successful, one-time delinquent taxpayer

amnesty program. For 2005, the City is conservatively estimating income tax revenues at \$6,650,000. The following table shows the resident and non-resident composition of the income tax base:

Category	Number of Payers	2004 Amount Paid	Percent of Total	Average Amount Paid
City Resident	7,985	\$ 2,350,485	33%	\$ 294
Non-Resident	14,543	3,868,363	55%	266
Corporate	1,850	814,539	12%	440
Total	24,378	\$7,033,387	100%	\$ 289

Local Property Tax

The City's 2004 property tax millage consisted of 10 mills: 7.5 mills for general operations and 2.5 mills levied for sanitation. City charter authorizes a general operating millage up to 10 mills and state law permits a maximum sanitation millage of 3 mills. Millage rates are applied to the taxable value of property in the City to arrive at the City's property tax levy. As shown below, taxable values have been relatively stagnant over the last few years.

Year	Real	Personal	Total	Percent Change
2004	\$661,233,389	\$168,106,228	\$829,339,617	-1.2%
2003	661,692,712	177,348,400	839,041,112	+1.6%
2002	638,624,250	187,393,600	826,017,850	+1.6%
2001	601,420,300	211,503,600	812,923,900	+12.3%

State Shared Revenues

State shared sales tax revenues represent 19.9% of total general fund revenue and other financing sources. The City's state shared revenue allocation is made up of two approximately equal parts. The constitutional component is a fixed percentage of total state sales tax collections that cannot be reduced by the legislature. The statutory component is determined by a complex formula and is subject to adjustment through the State's budget process. Both constitutional and statutory components depend, of course, on overall state sales tax collections. Over the last several years, state shared revenues have fallen sharply due to the faltering economy and to executive order budget cuts in the statutory share. The most recent data available from the state indicates that the state shared revenues will remain at current level for 2005. The City's recent state shared revenue history is summarized below:

Year	State Shared Revenues	Percent Change
2005*	\$4,688,657	+0.9%
2004	4,645,348	-5.9%
2003	4,938,861	-7.8%
2002	5,353,987	-6.9%
2001	5,748,523	-

* Budget amount

Continued erosion of the state shared revenue component constitutes the single biggest threat to the stability of City finances at this time. Due to the local income tax, Muskegon is somewhat less dependent on this revenue source than most Michigan cities.

Street Funds

The State also returns to the City a share of gasoline tax revenues to help fund maintenance and construction of major and local streets in the City. These revenues have not suffered to the extent that general state sales tax revenues have:

Year	Street Revenues from State	Percent Change
2005*	\$3,537,574	+2.3%
2004	3,459,503	+9.2%
2003	3,166,406	-1.7%
2002	3,220,625	+1.9%
2001	3,159,325	-
* Budgeted amount		

Water and Sewer Fees

From a government-wide entity perspective, combined water and sewer fees represent the City's largest income source totaling \$9,060,911 in 2004. Charges to customers are based on the amount of metered services used times rates periodically set by the City Commission. For 2005, it is anticipated that water and sewer rates will be adjusted upwards to finance major capital improvements at the water filtration plant.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report, need additional financial information, or wish to obtain separate financial statements for the City's component units, contact the City's Finance Department at (231) 724-6713 or by e-mail (finance@shorelinecity.com).

FINANCIAL STATEMENTS

City of Muskegon

STATEMENT OF NET ASSETS

December 31, 2004

	Primary Government				
	Governmental Activities	Business-Type Activities	Total	Component Units	Total Reporting Entity
ASSETS					
Cash and cash equivalents (note A and B)	\$ 4,915,403	\$ 5,042,717	\$ 9,958,120	\$ 925,703	\$ 10,883,823
Investments (note A and B)	7,632,588	-	7,632,588	-	7,632,588
Receivables (net of allowance for uncollectibles) (note A)					
Accounts and loans	1,785,554	2,297,435	4,082,989	-	4,082,989
Special assessments					
Current	443,954	-	443,954	-	443,954
Non-current	3,718,728	-	3,718,728	-	3,718,728
Taxes					
Property	6,444,950	-	6,444,950	709,847	7,154,797
Income	2,509,611	-	2,509,611	-	2,509,611
Internal balances	(1,298,315)	1,298,315	-	-	-
Due from other governmental units	2,259,123	57,432	2,316,555	-	2,316,555
Inventories (note A)	18,270	108,769	127,039	-	127,039
Prepaid items (note A)	263,172	22,086	285,258	-	285,258
Restricted cash and cash equivalents (note A and B)	-	822,559	822,559	-	822,559
Deferred debt expense (note A)	64,892	130,895	195,787	129,621	325,408
Contract receivable (note A)	-	2,770,434	2,770,434	-	2,770,434
Wastewater facility rights (net of accumulated amortization of \$2,369,748) (note A)	-	1,094,345	1,094,345	-	1,094,345
	28,757,930	13,644,987	42,402,917	1,765,171	44,168,088
Capital assets (note A and C)					
Land, construction in progress and other assets not being depreciated	19,161,190	18,991,429	38,152,619	400,000	38,552,619
Other capital assets, net of depreciation	27,259,255	33,497,053	60,756,308	3,611,223	64,367,531
Total capital assets	46,420,445	52,488,482	98,908,927	4,011,223	102,920,150
TOTAL ASSETS	\$ 75,178,375	\$ 66,133,469	\$ 141,311,844	\$ 5,776,394	\$ 147,088,238
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	\$ 1,521,137	\$ 2,392,167	\$ 3,913,304	\$ -	\$ 3,913,304
Accrued payroll	427,773	59,667	487,440	-	487,440
Accrued interest	20,800	105,000	125,800	48,400	174,200
Due to other governmental units	-	214,825	214,825	-	214,825
Deferred revenue (note A)	12,538,527	-	12,538,527	709,847	13,248,374
	14,508,237	2,771,659	17,279,896	758,247	18,038,143
Long-term liabilities (note A and D)					
Due within one year					
Bonds payable	1,115,000	1,515,974	2,630,974	185,000	2,815,974
Compensated absences	261,299	30,228	291,527	-	291,527
Due in more than one year					
Bonds payable	4,706,493	20,588,732	25,295,225	9,021,982	34,317,207
Compensated absences	1,306,493	147,585	1,454,078	-	1,454,078
Total long-term liabilities	7,389,285	22,282,519	29,671,804	9,206,982	38,878,786
Total liabilities	21,897,522	25,054,178	46,951,700	9,965,229	56,916,929
Net assets (note A)					
Invested in capital assets, net of related debt	40,663,844	31,609,016	72,272,860	(576,138)	71,696,722
Restricted for					
Streets and highways	4,016,739	-	4,016,739	-	4,016,739
Debt service	-	822,559	822,559	-	822,559
Perpetual care					
Expendable	22,896	-	22,896	-	22,896
Non-expendable	1,170,019	-	1,170,019	-	1,170,019
Unrestricted	7,407,355	8,647,716	16,055,071	(3,612,697)	12,442,374
Total net assets	53,280,853	41,079,291	94,360,144	(4,188,835)	90,171,309
TOTAL LIABILITIES AND NET ASSETS	\$ 75,178,375	\$ 66,133,469	\$ 141,311,844	\$ 5,776,394	\$ 147,088,238

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
Year Ended December 31, 2004

Functions/Programs	Program Revenues						Net (Expense) Revenue and Change in Net Assets			
	Charges for			Capital Grants			Primary Government			
	Expenses	Services	Operating Grants and Contributions	Contributions	Governmental Activities	Business-Type Activities	Total	Component Units	Total Reporting Entity	
Primary government										
Governmental activities										
Public representation services	\$ 866,669	\$ 210,238	\$ -	\$ -	\$ (656,431)	\$ -	\$ (656,431)	\$ -	\$ (656,431)	
Administrative services	1,132,229	314,028	-	-	(810,201)	-	(810,201)	-	(810,201)	
Financial services	1,809,136	645,166	-	-	(1,163,970)	-	(1,163,970)	-	(1,163,970)	
Public safety	12,164,389	1,098,793	-	251,439	(10,814,157)	-	(10,814,157)	-	(10,814,157)	
Public works	2,847,755	452,606	-	188,960	(1,857,725)	-	(1,857,725)	-	(1,857,725)	
Leisure services	2,468,059	1,151,687	-	177,205	(1,117,187)	-	(1,117,187)	-	(1,117,187)	
Planning and economic development	2,652,497	414,543	-	1,366,846	993,766	-	993,766	-	993,766	
Highways, streets and bridges	3,879,462	555,018	-	4,052,593	4,186,370	-	4,186,370	-	4,186,370	
General administration	1,725,225	200,434	-	56,000	(1,468,791)	-	(1,468,791)	-	(1,468,791)	
Interest on long-term debt	193,021	-	-	-	(193,021)	-	(193,021)	-	(193,021)	
Total governmental activities	29,738,442	5,042,513	6,008,978	5,785,604	(12,901,347)	-	(12,901,347)	-	(12,901,347)	
Business-type activities										
Water	4,122,822	4,977,320	-	348,208	-	1,202,706	1,202,706	-	1,202,706	
Sewer	3,745,156	4,083,591	-	297,925	-	636,360	636,360	-	636,360	
Marina and launch ramp	351,705	266,981	-	11,388	-	(73,336)	(73,336)	-	(73,336)	
Total business-type activities	8,219,683	9,327,892	-	657,521	-	1,765,730	1,765,730	-	1,765,730	
Total primary government	\$ 37,958,125	\$ 14,370,405	\$ 6,008,978	\$ 6,443,125	(12,901,347)	1,765,730	(11,135,617)	-	(11,135,617)	
Component units										
Local Development Finance Authority I	\$ -	\$ -	\$ -	\$ -	-	-	-	-	-	
Local Development Finance Authority II	399	-	-	-	-	-	-	(399)	(399)	
Local Development Finance Authority III	384,897	-	-	-	-	-	-	(384,897)	(384,897)	
Downtown Development Authority	275,827	-	-	-	-	-	-	(275,827)	(275,827)	
Tax Increment Finance Authority	56,000	-	-	-	-	-	-	(56,000)	(56,000)	
Total component units	\$ 717,123	\$ -	\$ -	\$ -	-	-	-	(717,123)	(717,123)	
General revenues										
Property taxes					6,962,453	-	6,962,453	754,846	7,717,299	
Income taxes					7,326,811	-	7,326,811	-	7,326,811	
State shared revenues					4,645,348	-	4,645,348	-	4,645,348	
Investment earnings					170,094	51,768	221,862	23,095	244,957	
Miscellaneous					68,405	-	68,405	-	68,405	
Gain (loss) on sale of capital assets					70,886	-	70,886	-	-	
Transfers					(142,420)	142,420	-	-	-	
Total general revenues and transfers					19,101,577	194,188	19,295,765	777,941	20,002,820	
Change in net assets					6,200,230	1,959,918	8,160,148	60,818	8,220,966	
Net assets at beginning of year					47,080,623	39,119,373	86,199,996	(4,249,653)	81,950,343	
Net assets at end of year					\$ 53,280,853	\$ 41,079,291	\$ 94,360,144	\$ (4,188,835)	\$ 90,171,309	

**City of Muskegon
Governmental Funds**

BALANCE SHEET

December 31, 2004

	General	Major Street and Trunkline	Local Street	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents (note A and B)	\$ 6,017	\$ -	\$ 129,449	\$ 2,057,114	\$ 2,192,580
Investments (note A and B)	6,432,350	-	-	1,200,238	7,632,588
Receivables (net of allowance for uncollectibles) (note A)					
Accounts and loans	581,298	34,620	-	859,653	1,475,571
Special assessment	-	1,295,259	1,738,528	1,128,895	4,162,682
Taxes					
Property	6,444,950	-	-	-	6,444,950
Income	1,624,611	-	-	-	1,624,611
Due from other funds (note E)	1,321,441	5,207,840	-	1,250,000	7,779,281
Due from other governmental units	855,149	432,985	104,123	866,866	2,259,123
Prepaid items (note A)	64,349	20,424	5,026	2,193	91,992
TOTAL ASSETS	\$ 17,330,165	\$ 6,991,128	\$ 1,977,126	\$ 7,364,959	\$ 33,663,378
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 467,708	\$ 618,941	\$ 6,431	\$ 89,078	\$ 1,182,158
Accrued payroll	341,754	31,450	17,546	6,995	397,745
Due to other funds (note E)	6,448,026	-	-	842,348	7,290,374
Deferred revenue (note A)	7,627,486	5,374,572	1,688,021	1,567,175	16,257,254
Total liabilities	14,884,974	6,024,963	1,711,998	2,505,596	25,127,531
Fund balances (note A)					
Reserved for					
Prepaid items	64,349	20,424	5,026	2,193	91,992
Endowments	10,000	-	-	1,160,019	1,170,019
Unreserved					
Designated, reported in (note L)					
Capital project funds	-	-	-	476,113	476,113
Undesignated, reported in					
General fund	2,370,842	-	-	-	2,370,842
Special revenue funds	-	945,741	260,102	1,486,588	2,692,431
Capital projects funds	-	-	-	1,711,554	1,711,554
Permanent fund	-	-	-	22,896	22,896
Total fund balances	2,445,191	966,165	265,128	4,859,363	8,535,847
TOTAL LIABILITIES AND FUND BALANCES	\$ 17,330,165	\$ 6,991,128	\$ 1,977,126	\$ 7,364,959	\$ 33,663,378

The accompanying notes are an integral part of this statement.

**City of Muskegon
Governmental Funds**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES**

December 31, 2004

Total governmental fund balances	\$	8,535,847
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

Governmental capital assets	\$ 58,450,627	
Less accumulated depreciation	<u>(14,887,028)</u>	43,563,599

Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Bond issuance costs	64,892	
Additional income taxes receivable	<u>885,000</u>	949,892

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.

Governmental bonds payable	(5,816,900)	
Bond premium	(4,593)	
Accrued interest on the bonds	(20,800)	
Compensated absences (sick pay and vacations)	<u>(1,461,844)</u>	(7,304,137)

Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.

3,718,727

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities.

Net assets of the internal service funds	5,187,845	
Amounts due to business-type funds from internal service funds	<u>(1,370,920)</u>	3,816,925

Net assets of governmental activities	\$	<u><u>53,280,853</u></u>
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The accompanying notes are an integral part of this statement.

**City of Muskegon
Governmental Funds**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	General	Major Street and Trunkline	Local Street	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 13,767,040	\$ -	\$ -	\$ -	\$ 13,767,040
Special assessments	-	296,857	85,557	321,050	703,464
Licenses and permits	1,139,014	-	-	-	1,139,014
Federal grants	233,158	779,854	-	2,131,723	3,144,735
State grants	33,127	3,012,583	138,050	1,015,519	4,199,279
State shared revenues	4,645,348	2,760,477	699,026	-	8,104,851
Charges for services	2,138,678	300,143	263,998	734,401	3,437,220
Interest and rental income	160,766	154,196	24,065	96,125	435,152
Fines and fees	622,165	-	-	-	622,165
Other	361,288	1,597	618	564,925	928,428
Total revenues	23,100,584	7,305,707	1,211,314	4,863,743	36,481,348
Expenditures					
Current					
Public representation services	869,342	-	-	-	869,342
Administrative services	704,667	-	-	-	704,667
Financial services	1,829,276	-	-	-	1,829,276
Public safety	12,272,681	-	-	4,996	12,277,677
Public works	2,543,512	-	-	-	2,543,512
Highways, streets and bridges	-	6,812,050	1,842,881	-	8,654,931
Leisure services	2,259,699	-	-	-	2,259,699
Planning and economic development	797,072	-	-	-	797,072
Other governmental functions	727,186	-	-	981,682	1,708,868
Capital outlay	11,373	-	-	6,128,224	6,139,597
Debt services					
Principal	205,000	555,000	-	575,000	1,335,000
Interest	11,884	82,325	-	107,238	201,447
Total expenditures	22,231,692	7,449,375	1,842,881	7,797,140	39,321,088
Excess (deficiency) of revenues over expenditures	868,892	(143,668)	(631,567)	(2,933,397)	(2,839,740)
Other financing sources (uses)					
Transfers in	301,209	-	920,000	2,121,403	3,342,612
Sale of property	-	-	-	483,544	483,544
Transfers out	(1,156,328)	(303,275)	(39,446)	(1,734,320)	(3,233,369)
Total other financing sources (uses)	(855,119)	(303,275)	880,554	870,627	592,787
Net change in fund balances	13,773	(446,943)	248,987	(2,062,770)	(2,246,953)
Fund balances at beginning of year	2,431,418	1,413,108	145,641	6,922,133	10,912,300
Prior period adjustment (note M)	-	-	(129,500)	-	(129,500)
As restated	2,431,418	1,413,108	16,141	6,922,133	10,782,800
Fund balances at end of year	\$ 2,445,191	\$ 966,165	\$ 265,128	\$ 4,859,363	\$ 8,535,847

The accompanying notes are an integral part of this statement.

City of Muskegon

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended December 31, 2004

Net change in fund balances - total governmental funds	\$	(2,246,953)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	\$ 8,735,293	
Less current year depreciation	<u>(1,319,691)</u>	7,415,602

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Amortization of premium and issuance costs	(9,015)	
Principal payments	1,335,000	
Change in accrued interest	5,900	
Change in long-term compensated absences	<u>(99,747)</u>	1,232,138

Governmental funds report the proceeds from the sale of capital assets as revenue. However, the proceeds are netted against the net book value of the asset in determining the gain (loss) on sale in the statement of activities

(184,650)

Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the statement of net assets

(306,812)

Governmental funds recognize income tax revenues when they are both measurable and available, that is collected during the current period or within two months after year end. However, they are recognized in full for the period they are earned in the statement of net assets.

(90,000)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of certain activities of the internal service funds are reported with governmental activities.

Change in net assets of internal service funds	531,828	
Amount allocated to business-type funds	<u>(150,923)</u>	380,905

Change in net assets of governmental activities	\$	<u><u>6,200,230</u></u>
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The accompanying notes are an integral part of this statement.

**City of Muskegon
Proprietary Funds**

STATEMENT OF FUND NET ASSETS

December 31, 2004

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	Sewer	Water	Marina and Launch Ramp	Total	Internal Service
ASSETS					
Current assets					
Cash and cash equivalents (note A and B)	\$ 1,397,154	\$ 3,645,563	\$ -	\$ 5,042,717	\$ 1,396,796
Accounts receivable	1,154,799	1,142,035	601	2,297,435	309,983
Due from other funds	-	-	-	-	909,725
Due from other governmental units	-	46,044	11,388	57,432	-
Inventories (note A)	30,795	77,974	-	108,769	18,270
Prepaid items (note A)	9,848	11,546	692	22,086	171,180
Total current assets	2,592,596	4,923,162	12,681	7,528,439	2,805,954
Noncurrent assets					
Restricted cash and cash equivalents (note A and B)	-	822,559	-	822,559	-
Deferred debt expense (note A)	-	130,895	-	130,895	-
Contract receivable (note A)	2,770,434	-	-	2,770,434	-
Wastewater facility rights (net of accumulated amortization of \$2,369,748) (note A)	1,094,345	-	-	1,094,345	-
Capital assets (note A and C)					
Land, construction in progress and other assets not being depreciated	1,264,540	17,704,327	22,562	18,991,429	65,000
Other capital assets, net of depreciation	11,549,351	20,526,964	1,420,738	33,497,053	2,791,846
Total capital assets	12,813,891	38,231,291	1,443,300	52,488,482	2,856,846
Total noncurrent assets	16,678,670	39,184,745	1,443,300	57,306,715	2,856,846
TOTAL ASSETS	\$ 19,271,266	\$ 44,107,907	\$ 1,455,981	\$ 64,835,154	\$ 5,662,800
LIABILITIES AND NET ASSETS					
Liabilities					
Current liabilities					
Current maturities of long-term debt	\$ 1,080,974	\$ 435,000	\$ -	\$ 1,515,974	\$ -
Accounts payable	6,125	2,373,812	12,230	2,392,167	338,979
Accrued payroll	21,794	36,902	971	59,667	30,028
Accrued interest	-	105,000	-	105,000	-
Due to other funds (note E)	-	-	72,605	72,605	-
Due to other governmental units	156,415	58,410	-	214,825	-
Compensated absences payable (note A)	54,485	120,219	3,109	177,813	105,948
Total current liabilities	1,319,793	3,129,343	88,915	4,538,051	474,955
Noncurrent liabilities (note A and D)					
Contracts payable-Muskegon County	4,779,656	-	-	4,779,656	-
Bonds payable (net of unamortized discount of \$83,716)	-	17,325,050	-	17,325,050	-
Less current maturities	(1,080,974)	(435,000)	-	(1,515,974)	-
Total noncurrent liabilities	3,698,682	16,890,050	-	20,588,732	-
Total liabilities	5,018,475	20,019,393	88,915	25,126,783	474,955
Net assets (note A)					
Invested in capital assets, net of related debt	9,128,580	21,037,136	1,443,300	31,609,016	2,856,846
Restricted for					
Debt service	-	822,559	-	822,559	-
Unrestricted	5,124,211	2,228,819	(76,234)	7,276,796	2,330,999
Total net assets	14,252,791	24,088,514	1,367,066	39,708,371	5,187,845
TOTAL LIABILITIES AND NET ASSETS	\$ 19,271,266	\$ 44,107,907	\$ 1,455,981	\$ 64,835,154	\$ 5,662,800

Reconciliation to the statement of net assets

Total net assets of enterprise funds	\$ 39,708,371
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities	1,370,920
Net assets of business-type activities	<u>\$ 41,079,291</u>

The accompanying notes are an integral part of this statement.

**City of Muskegon
Proprietary Funds**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2004

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer	Water	Marina and Launch Ramp	Total	Internal Service
Operating revenues					
Charges for services	\$ 4,032,673	\$ 4,878,807	\$ 256,297	\$ 9,167,777	\$ -
Charges to other funds	-	-	-	-	6,016,323
Other revenues	50,918	98,513	10,684	160,115	205,163
Total operating revenues	4,083,591	4,977,320	266,981	9,327,892	6,221,486
Operating expenses					
Operating and administrative	402,634	492,656	285,922	1,181,212	2,536,423
Insurance premiums and claims	-	-	-	-	3,576,019
Wastewater treatment	2,599,280	-	-	2,599,280	-
Filtration plant operations	-	1,188,566	-	1,188,566	-
Water distribution	-	1,494,462	-	1,494,462	-
Bad debts	37,025	10,383	-	47,408	-
Depreciation and amortization	662,976	604,442	69,873	1,337,291	586,234
Total operating expenses	3,701,915	3,790,509	355,795	7,848,219	6,698,676
Operating income (loss)	381,676	1,186,811	(88,814)	1,479,673	(477,190)
Nonoperating revenues (expenses)					
Investment income	12,821	38,947	-	51,768	24,628
Gain (loss) on sale of capital assets	-	-	-	-	(4,906)
State grants	-	-	11,388	11,388	-
Other	147,532	-	-	147,532	-
Interest expense	(110,520)	(411,867)	-	(522,387)	-
Total nonoperating revenues (expenses)	49,833	(372,920)	11,388	(311,699)	19,722
Income (loss) before capital contributions and transfers	431,509	813,891	(77,426)	1,167,974	(457,468)
Capital contributions					
Infrastructure reimbursement received	150,393	348,208	-	498,601	-
Income (loss) before transfers	581,902	1,162,099	(77,426)	1,666,575	(457,468)
Transfers					
Transfers in	47,796	54,624	40,000	142,420	1,240,959
Transfers out	-	-	-	-	(251,663)
Total transfers	47,796	54,624	40,000	142,420	989,296
Change in net assets	629,698	1,216,723	(37,426)	1,808,995	531,828
Net assets at beginning of year	13,623,093	22,871,791	1,404,492	37,899,376	4,656,017
Net assets at end of year	\$ 14,252,791	\$ 24,088,514	\$ 1,367,066	\$ 39,708,371	\$ 5,187,845

Reconciliation to the statement of activities

Total change in net assets of enterprise funds \$ 1,808,995

Some amounts reported for business-type activities
in the statements of activities are different because
the net revenue (expense) of certain internal service
funds is reported with business-type activities

150,923

Change in net assets of business-type activities

\$ 1,959,918

The accompanying notes are an integral part of this statement.

**City of Muskegon
Proprietary Funds**

STATEMENT OF CASH FLOWS

Year Ended December 31, 2004

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer	Water	Marina and Launch Ramp	Total	Internal Service
Cash flows from operating activities					
Receipts from customers	\$ 4,061,635	\$ 4,897,939	\$ 255,593	\$ 9,215,167	\$ 209,473
Receipts for internal services provided	-	-	-	-	6,016,323
Payments to suppliers	(1,884,469)	(1,211,258)	(143,905)	(3,239,632)	(5,132,409)
Payments to employees	(562,964)	(1,280,494)	(111,302)	(1,954,760)	(914,204)
Payments to internal service funds	(544,281)	(677,035)	(24,649)	(1,245,965)	(359,554)
Net cash provided by (used for) operating activities	1,069,921	1,729,152	(24,263)	2,774,810	(180,371)
Cash flows from noncapital financing activities					
Interfund borrowing	-	-	593	593	(909,725)
Transfers in	47,796	54,624	40,000	142,420	1,240,959
Transfers out	-	-	-	-	(251,663)
Net cash provided by noncapital financing activities	47,796	54,624	40,593	143,013	79,571
Cash flows from capital and related financing activities					
State grant	-	-	11,388	11,388	-
Capital contributions	150,393	348,208	-	498,601	-
Acquisition and construction of capital assets	(511,938)	(9,326,359)	(27,718)	(9,866,015)	(577,914)
Proceeds from sale of capital assets	-	500,000	-	500,000	-
Proceeds from debt	-	8,483,766	-	8,483,766	-
Principal paid on bonds	(1,107,267)	(420,000)	-	(1,527,267)	-
Interest paid on bonds	(110,520)	(362,480)	-	(473,000)	-
Other	147,532	-	-	147,532	-
Net cash used for capital and related financing activities	(1,431,800)	(776,865)	(16,330)	(2,224,995)	(577,914)
Cash flows from investing activities					
Investment income	12,821	38,947	-	51,768	24,628
Collections on contract receivable	652,088	-	-	652,088	-
Net cash provided by investing activities	664,909	38,947	-	703,856	24,628
Net increase (decrease) in cash and cash equivalents	350,826	1,045,858	-	1,396,684	(654,086)
Cash and cash equivalents at beginning of year	1,046,328	3,422,264	-	4,468,592	2,050,882
Cash and cash equivalents at end of year	<u>\$ 1,397,154</u>	<u>\$ 4,468,122</u>	<u>\$ -</u>	<u>\$ 5,865,276</u>	<u>\$ 1,396,796</u>
Reconciliation of cash and cash equivalents to the balance sheet					
Cash and cash equivalents	\$ 1,397,154	\$ 3,645,563	\$ -	\$ 5,042,717	\$ 1,396,796
Restricted cash and cash equivalents	-	822,559	-	822,559	-
	<u>\$ 1,397,154</u>	<u>\$ 4,468,122</u>	<u>\$ -</u>	<u>\$ 5,865,276</u>	<u>\$ 1,396,796</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	\$ 381,676	\$ 1,186,811	\$ (88,814)	\$ 1,479,673	\$ (477,190)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation and amortization	662,976	604,442	69,873	1,337,291	586,234
Bad debt	37,025	10,383	-	47,408	-
(Increase) decrease in					
Accounts receivable	(21,956)	(73,873)	-	(95,829)	(182,750)
Due from other governmental units	-	(5,508)	(11,388)	(16,896)	-
Inventories	(7,703)	(7,702)	-	(15,405)	(7,866)
Prepaid items	410	224	47	681	(143,349)
Increase (decrease) in					
Accounts payable	(28,029)	(21,695)	7,216	(42,508)	26,051
Accrued payroll	8,224	(1,674)	(189)	6,361	6,406
Due to other governmental units	27,768	58,410	-	86,178	-
Compensated absences payable	9,530	(20,666)	(1,008)	(12,144)	12,093
Net cash provided by (used for) operating activities	<u>\$ 1,069,921</u>	<u>\$ 1,729,152</u>	<u>\$ (24,263)</u>	<u>\$ 2,774,810</u>	<u>\$ (180,371)</u>

The accompanying notes are an integral part of this statement.

**City of Muskegon
Fiduciary Funds**

STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2004

	Pension Trust Funds	Agency Funds	Total Fiduciary Net Assets
<u>ASSETS</u>			
Cash and cash equivalents (note A and B)	\$ 1,162,153	\$ 5,790,843	\$ 6,952,996
Investments (note A and B)	86,964,885	-	86,964,885
Receivables (note A)			
Accounts	-	5,486	5,486
Property taxes	-	18,997,331	18,997,331
TOTAL ASSETS	\$ 88,127,038	\$ 24,793,660	\$ 112,920,698
<u>LIABILITIES AND NET ASSETS</u>			
Liabilities			
Accounts payable	\$ 276	\$ 11,222	\$ 11,498
Due to other funds (note E)	-	1,326,027	1,326,027
Due to other governmental units	-	22,672,481	22,672,481
Other liabilities	-	783,930	783,930
Total liabilities	276	24,793,660	24,793,936
Net assets (note A)			
Held in trust for pension benefits	77,932,507	-	77,932,507
Held in trust for healthcare benefits	10,194,255	-	10,194,255
Total net assets	88,126,762	-	88,126,762
TOTAL LIABILITIES AND NET ASSETS	\$ 88,127,038	\$ 24,793,660	\$ 112,920,698

The accompanying notes are an integral part of this statement.

**City of Muskegon
Fiduciary Funds**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended December 31, 2004

	Pension Trust
Additions	
Contributions	
Member	\$ 717,024
City	2,384,665
Total contributions	<u>3,101,689</u>
Net investment income	
Interest and dividends	12,924
Net increase in fair value of investments	<u>8,452,230</u>
Total additions	<u>11,566,843</u>
Deductions	
Benefit payments	4,490,543
Refunds of contributions	278,682
Administrative expenses	229,574
Transfers out	<u>1,240,959</u>
Total deductions	<u>6,239,758</u>
Change in net assets	5,327,085
Net assets at beginning of year	<u>82,799,677</u>
Net assets at end of year	<u><u>\$ 88,126,762</u></u>

The accompanying notes are an integral part of this statement.

City of Muskegon
Discretely Presented Component Units

STATEMENT OF NET ASSETS

December 31, 2004

	Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Combined Total
ASSETS						
Cash and cash equivalents (note A and B)	\$ 301	\$ 21,795	\$ 465,160	\$ 435,306	\$ 3,141	\$ 925,703
Property taxes receivable	-	-	11,620	638,521	59,706	709,847
Deferred debt expense (note A)	-	-	129,621	-	-	129,621
	301	21,795	606,401	1,073,827	62,847	1,765,171
Capital assets (note A and C)						
Land	-	-	400,000	-	-	400,000
Other capital assets, net of depreciation	-	-	3,611,223	-	-	3,611,223
Total capital assets	-	-	4,011,223	-	-	4,011,223
TOTAL ASSETS	\$ 301	\$ 21,795	\$ 4,617,624	\$ 1,073,827	\$ 62,847	\$ 5,776,394
LIABILITIES AND NET ASSETS						
Liabilities						
Accrued interest	\$ -	\$ -	\$ 34,200	\$ 14,200	\$ -	\$ 48,400
Deferred revenue (note A)	-	-	11,620	638,521	59,706	709,847
	-	-	45,820	652,721	59,706	758,247
Long-term liabilities (note A and D)						
Due within one year	-	-	-	185,000	-	185,000
Bonds payable	-	-	-	-	-	-
Due in more than one year	-	-	4,716,982	4,305,000	-	9,021,982
Bonds payable (net of unamortized discount of \$8,018)	-	-	4,716,982	4,490,000	-	9,206,982
Total long-term liabilities	-	-	4,762,802	5,142,721	59,706	9,965,229
Total liabilities	-	-	(576,138)	-	-	(576,138)
Net assets (note A)						
Invested in capital assets, net of related debt	301	21,795	430,960	(4,068,894)	3,141	(3,612,697)
Unrestricted	301	21,795	(145,178)	(4,068,894)	3,141	(4,188,835)
Total net assets	301	21,795	4,617,624	1,073,827	62,847	5,776,394
TOTAL LIABILITIES AND NET ASSETS	\$ 301	\$ 21,795	\$ 4,617,624	\$ 1,073,827	\$ 62,847	\$ 5,776,394

The accompanying notes are an integral part of this statement.

City of Muskegon
Discretely Presented Component Units

STATEMENT OF ACTIVITIES

December 31, 2004

	Net (Expenses) Revenue and Change in Net Assets						
	Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Combined Total	
Expenses							
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	399	(399)	-	-	-	(399)	
Local Development Finance Authority I Economic development							
	178,821	-	(178,821)	-	-	(178,821)	
	206,076	-	(206,076)	-	-	(206,076)	
Total Local Development Finance Authority III	384,897	-	(384,897)	-	-	(384,897)	
Downtown Development Authority Economic development	115,084	-	-	(115,084)	-	(115,084)	
Interest on long-term debt	160,743	-	-	(160,743)	-	(160,743)	
Total Downtown Development Authority	275,827	-	-	(275,827)	-	(275,827)	
Tax Increment Finance Authority Economic development	56,000	-	-	-	(56,000)	(56,000)	
Total discretely presented component units	\$ 717,123	(399)	(384,897)	(275,827)	(56,000)	(717,123)	
General revenues							
Property taxes	-	-	10,585	686,302	57,959	754,846	
Investment income	-	1,381	16,199	5,182	333	23,095	
Total general revenues	-	1,381	26,784	691,484	58,292	777,941	
Change in net assets	-	982	(358,113)	415,657	2,292	60,818	
Net assets at beginning of year	301	20,813	212,935	(4,484,551)	849	(4,249,653)	
Net assets at end of year	\$ 301	\$ 21,795	\$ (145,178)	\$ (4,068,894)	\$ 3,141	\$ (4,188,835)	

The accompanying notes are an integral part of this statement.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Muskegon, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to cities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the City are discussed below.

- Financial Reporting Entity - The City of Muskegon was incorporated October 6, 1919, under the provisions of the Home Rule Act of the State of Michigan. The City operates under a Commission-Manager form of government and provides the following services as authorized by its charter: general administrative services, public safety, highway and street maintenance, sanitation, culture, recreation and other governmental functions. As required by GAAP, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.
- Component Units - In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units. Each blended and discretely presented component unit has a December 31 year-end.
 - *Blended Component Units* - Blended component units, although legally separate entities, are, in substance, part of City operations and so data from these units are combined with data from the primary government.
 - City of Muskegon Building Authority - The Authority is governed by a three-member board comprised of the City Manager, City Attorney and City Finance Director. For financial reporting purposes, the Building Authority is reported as if it were part of the City's operations since its sole purpose is to acquire and lease property to the City. Currently, there is no outstanding Building Authority indebtedness.
 - *Discretely Presented Component Units* - The component units' columns in the government-wide financial statements include the financial data of the City's other component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- City of Muskegon Downtown Development Authority (DDA) - The Authority's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown district. Members of the DDA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the DDA budget and must approve any debt issuance.
 - City of Muskegon Tax Increment Finance Authority (TIFA) - The Authority's sole purpose is the collection of tax increment revenues and promotion of economic development activities (including issuance of debt) in a sub-section of the downtown district. Members of the TIFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the TIFA budget and must approve any debt issuance.
 - City of Muskegon Local Development Finance Authority - The City has created three separate local development finance authority districts under the aegis of the Local Development Finance Authority (LDFA) to promote and facilitate economic growth in the Port City Industrial Park, the Medendorp Industrial Park, and the SmartZone Hi-Tech Park. The LDFA's sole purpose is the collection of tax increment revenues and the construction of public facilities. Members of the LDFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves budgets and must approve any debt issuance.
 - Complete financial statements of the component units can be obtained from their administrative offices, 933 Terrace Street, Muskegon, Michigan 49443.
- *Related Organizations* - The following organizations are related to the City's financial reporting entity:
- Muskegon Hospital Finance Authority - The Muskegon Hospital Finance Authority was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Hospital Finance Authority are appointed by the City but the City is not financially accountable for the Authority and therefore the Authority is excluded from the accompanying financial statements. The Hospital Finance Authority's sole purpose is to issue tax-exempt debt for the benefit of Hackley and Mercy-General hospitals, both of which are located within the City. The Authority has no assets or financial activity and does not prepare financial statements. The Hospital Finance Authority has no taxing power. As of December 31, 2004, there was no outstanding debt issued by the Hospital Finance Authority. The City is not obligated in any manner for repayment of debt issued by the Hospital Finance Authority, as any debt is payable solely from contractual payments from the hospitals.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- Muskegon Housing Commission - The Muskegon Housing Commission was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Housing Commission are appointed by the City but the City is not financially accountable for the Commission and therefore the Commission is excluded from the accompanying financial statements. The Housing Commission's main purpose is to administer activities that provide adequate housing facilities for low-income families and the elimination of housing conditions that are detrimental to the public peace, health, safety and welfare. The Commission's policy is to prepare its financial statements on the basis prescribed by the Department of Housing and Urban Development. Accordingly, the summary information below (which is required by federal regulations), is not intended to present financial position and results of operations in conformity with generally accepted accounting principles. Summary financial information for the fiscal year ended September 30, 2003, the date of its latest audited financial statements is as follows:

Muskegon Housing Commission	
Total assets	\$5,455,749
Total liabilities	<u>222,942</u>
Total fund equity	<u>\$5,232,807</u>
Total operating income	\$286,485
Total operating expenditures	(2,047,621)
Total nonoperating revenues	<u>1,434,149</u>
Net loss	<u>(\$326,987)</u>

Complete audited financial statements can be obtained from the Muskegon Housing Commission at 1080 Terrace Street, Muskegon, Michigan 49442.

- *Joint Ventures* - The City of Muskegon participates in the following joint ventures:
 - Central Operations for Police Services - The City is a member of an area-wide central dispatch system, Central Operations for Police Services. It is a joint venture of nine governmental units governed by a board composed of representatives of the participants. It is financed through property taxes, an emergency telephone surcharge to the public and through annual member assessments based on population, composite state equalized valuation of property and the average of service calls placed. The City does not report an equity interest in this joint venture in these financial statements because the City does not have an explicit and measurable right to the joint venture's resources. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Financial information based on the September 30, 2004 audit report of Central Operations for Police Services follows:

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Central Operations for Police Services	
General Fund	
Total assets	\$7,404,393
Total liabilities	<u>4,800,128</u>
Net assets	<u>\$2,604,265</u>
Program revenues	\$2,377,253
General revenues	1,109,396
Expenditures	<u>2,131,433</u>
Change in net assets	<u>\$1,355,216</u>

Complete financial statements for Central Operations for Police Services can be obtained from their administrative office at 860 Terrace Street, Muskegon, Michigan 49443.

- Muskegon Regional Water Alliance - The City is a member of an area-wide alliance, the Muskegon Regional Water Alliance. It is a joint venture of seven governmental units governed by a board composed of representatives of the participants. It is financed through member assessments. The purpose of the alliance is to review, advise and participate in non-binding issues regarding water service within Muskegon County. The City does not report an equity interest in this joint venture in these financial statements because the City does not have an explicit and measurable right to the joint venture's resources. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Financial information based on the May 31, 2003 audit report of the Muskegon Regional Water Alliance follows:

Muskegon Regional Water Alliance	
General Fund	
Total assets	\$6,362
Total liabilities	<u>-</u>
Fund balance	<u>\$6,362</u>
Revenues	\$ -
Expenditures	<u>450</u>
Revenues under expenditures	<u>(\$ 450)</u>
General fixed assets account group	\$ <u>-</u>
General long term debt	\$ <u>-</u>

Complete financial statements for the Muskegon Regional Water Alliance can be obtained from their administrative office at 5428 East Apple Avenue, Muskegon, Michigan 49444.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Basis of Accounting - Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. The City has elected not to allocate those indirect expenses to other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

- Basis of Accounting - Fund Financial Statements - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:
- Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
 - Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements. To improve reporting cohesiveness, the City has elected to include the Local Street and Marina funds as major funds for this report.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- The City reports the following major funds:
 - General Fund - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.
 - Special Revenue Funds
 - Major Street and Trunkline Fund - To account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.
 - Local Street Fund - To account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of local streets within the City.
 - Enterprise Funds
 - Water Fund - To account for user charges and for operating expenses and debt service of the City's water system.
 - Sewer Fund - To account for user charges and for operating expenses and debt service of the City's sewer system.
 - Marina Fund – To account for user fees collected and operating expenses for the Hartshorn Marina and boat launch ramp facilities.
- The following is a description of the three major categories and various fund types within those categories into which the funds are grouped:
 - Governmental Funds - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.
 - ♦ Revenue Recognition - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers income taxes, property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within two months of year-end. Reimbursements due for expenditure-driven grants are accrued as revenue at the time the expenditures are made, or if received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- ◆ Expenditure Recognition - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.
- The following is a description of the governmental fund types of the City:
 - ◆ General Fund - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.
 - ◆ Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.
 - ◆ Debt Service Funds - Debt service funds are used to record the funding and payment of principal, interest and related expenses in connection with certain long-term debt other than debt payable from the operations of the proprietary funds.
 - ◆ Capital Projects Funds - Capital projects funds are used to account for the acquisition or construction of major capital facilities other than those financed by proprietary fund operations.
 - ◆ Permanent Funds – The permanent funds are used to account for the assets of legal trust agreements held by the City as trustee for which only the interest income on the principal may be spent.
- Proprietary Funds - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The water and sewer funds also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- The following is a description of the proprietary fund types of the City:
 - ♦ Enterprise Funds - Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.
 - ♦ Internal Service Funds - Internal service funds are used to record the financing of goods or services provided by the City to other departments and funds or to other governmental units on a cost reimbursement basis.
- Fiduciary Funds (Not Included in Government-Wide Financial Statements) - Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs.
 - Agency Funds - Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City uses agency funds to account for property taxes collected on behalf of other units and to temporarily hold payroll withholding taxes and deductions.
 - Pension Trust Funds - The pension trust funds are used to account for the assets held by the City as trustee for the employee retirement systems.
- Budgets and Budgetary Accounting - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The City adopts its budget in accordance with City Charter and Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The City follows these procedures in establishing the budgetary data reflected in the financial statements:
 - Prior to September 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
 - Public hearings are conducted at the City hall to obtain public comments.
 - Prior to September 25th the budget and annual appropriations act are legally adopted by the City Commission.
 - Formal budget integration is employed as a management control device during the year.
 - Budgetary control is exercised at the department level in the general fund, and at the total expenditure or "fund" level for the special revenue funds. Similarly, the City's "appropriation centers" are defined at the department level in the general fund and at the total expenditure or "fund" level for the special revenue funds. The City Manager is empowered to transfer line-item budget amounts within appropriation centers.
 - Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the City Commission. Expenditures in the special revenue funds are classified by major functional category for informational purposes. Budgets for the current year are carefully reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary. In 2004, the general fund and special revenue fund budgets were amended to reflect actual expenditures that were lower than originally budgeted.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- All budget appropriations lapse at the end of the year.
- Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.
- Deposits and Investments - Statutes authorize the primary government and component units to invest in the following:
 - In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
 - In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
 - In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
 - In United States government or federal agency obligation repurchase agreements.
 - In banker's acceptances of United States banks.
 - In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
 - In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City's three pension trust funds are also authorized to invest in corporate bonds, common stock and certain other investment vehicles. The City's deposits and investments are in accordance with statutory authority.

The City maintains a cash and investment pool that is available for use by all funds and component units. Each fund type's or component unit's portion of this pool is displayed on the combined balance sheet as "cash and cash equivalents". In addition, certain City trust funds including the Policemen and Firemen Retirement Trust Fund, the General Employees Retirement Trust Fund and the Cemetery Perpetual Care Trust Fund have investments which are separately held from those of other City funds.

For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash and cash equivalents because the investments are not identifiable to the specific funds and the assets can be withdrawn at any time, similar to a demand deposit account.

In accordance with State law, interest earned in the Budget Stabilization Fund is recorded in the General Fund.

Investments with a maturity of greater than one year at the date of purchase are stated at fair value, and all other investments are stated at cost or amortized cost.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/due from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31st. Taxes are levied on December 1st of the following year and are payable from the date of levy through March 1st. Taxes levied on December 1st are recorded as receivables and deferred revenue. Taxes are recognized as revenue (and become available for appropriation) in the calendar year following the levy date (December 1st). The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the current tax fund. The City is permitted by state law without voter approval to levy taxes up to \$10.00 per \$1,000 of state equalized valuation for general governmental purposes, \$3.00 for sanitation, and up to \$50,000 per year for community promotion. The tax rate to finance City services for the year ended December 31, 2004, was \$10.0774 per \$1,000 of taxable valuation.

- Inventories and Prepaid Items - Inventories include materials, repair parts and supplies for various City operations and are valued at the lower of cost (first-in, first-out) or market. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.
- Restricted Cash and Cash Equivalents – Certain proceeds of the City’s enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.
- Wastewater Facility Rights - The City is a participant in the Muskegon County Wastewater Management System, a wastewater treatment facility owned and operated by Muskegon County. Members are charged usage fees based on the volume of wastewater treated. In addition, each member municipality has pledged its full faith and credit in repayment of their allocated shares of long-term debt of the system. The City has a binding commitment from a large industrial user of the system to participate in the repayment of its share of the debt. The industrial user, whose demand for wastewater treatment accounts for 59% of the citywide wastewater flow into the system, has agreed to fund 59% of the City’s share of the contracts payable to the County.

The City accounts for the group of transactions substantially in accordance with APB 17, Intangible Assets. The contract payable to Muskegon County is presented as long-term debt. The long-term receivable from the industrial user is recorded as an “other” asset and the difference, which represents the City’s investment in an intangible asset, is presented as wastewater facility rights. The investment in wastewater facility rights is amortized over the life of the debt issue.

- Capital Assets and Depreciation - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$7,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the water fund during the year ended December 31, 2004 was \$469,734. Of this amount, \$57,867 was included as part of the cost of capital assets under construction in connection with water treatment facilities. Other costs incurred for repairs and maintenance are expensed as incurred.
- Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	25 - 50
Improvements	40 - 50
Water and sewage mains	40 - 100
Equipment	5 - 20

- GASB 34 requires major networks and major subsystems of infrastructure acquired, donated, constructed or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The City has capitalized infrastructure since January 1, 2002 when GASB 34 was implemented, and has reported the infrastructure in the statement of net assets. The City will retroactively capitalize the major infrastructure assets on or before December 31, 2007, as permitted by GASB 34.
- Compensated Absences - City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The City follows the accounting and reporting principles outlined in GASB 16, with regard to employee vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, a liability for these amounts is reported in the governmental funds only for employee terminations as of year-end while the proprietary funds report the liability as it is incurred.
- Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- Cash Overdrafts - To facilitate cash management and to maximize interest income, the primary government and component units have pooled certain cash and investment accounts. Cash overdrafts represent a deficit position in the pooled account and have been classified as amounts due to other funds.
- Fund Equity – In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Reserves exist for prepaid items and inventories as those items will be expended in subsequent years. Designations of fund balance represent tentative management plans that are subject to change.
- Comparative Data - Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e. presentation of prior year's totals by fund type) data has not been presented in each of the statements since its inclusion would make the statements unduly complex and difficult to read. Also, certain items in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

NOTE B - CASH AND INVESTMENTS

- Deposits - At year-end the carrying amount of the primary government and component unit's deposits was \$12,292,617 and the bank balance was \$11,902,347. Of the bank balance, \$100,000 was federally insured and \$11,364,041 was uninsured and uncollateralized.

Deposits are categorized below according to level of credit risk:

- Category 1 represents insured or collateralized deposits with securities held by the entity or by its agent in the entity's name.
- Category 2 represents collateralized deposits with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 represents uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institutions, or by its trust department or agent but not in the entity's name.

	Category			Bank Balance	Carrying Amount
	<u>1</u>	<u>2</u>	<u>3</u>		
Demand Deposits	\$100,000	\$ -	\$11,802,347	\$11,902,347	\$12,292,617

- Investments - Investments of the primary government and component units are categorized below to give an indication of the level of risk assumed by the entity at year-end:
 - Category 1 includes investments that are insured or registered, or for which the securities are held by the entity or its agent in the entity's name.
 - Category 2 includes uninsured and unregistered investments, for which the securities are held by the counterparty's trust department or agent in the entity's name.
 - Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the entity's name.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE B - CASH AND INVESTMENTS – Continued

	Category			Carrying Amount
	<u>1</u>	<u>2</u>	<u>3</u>	
US Government Securities	\$7,658,909	\$ -	\$ -	\$7,658,909
<u>Investments Not Subject to Categorization:</u>				
Stable Net Asset Value Money Market Mutual Funds				1,658,469
Variable Net Asset Value Equity/Bond Collective Funds				<u>90,320,829</u>
				<u>\$99,638,207</u>

Pension trust investments included above consist of the following asset classes. Approximately 71% of the equity and bond investments consist of passively-managed index funds:

Fund	Equities	Bonds	Total
General Employees	\$22,921,644	\$12,522,254	\$35,443,898
Police & Fire	31,534,718	15,163,262	46,697,980
Retiree Healthcare	3,134,954	1,688,053	4,823,007
	<u>\$57,591,316</u>	<u>\$29,373,569</u>	<u>\$86,964,885</u>

Total deposits and investments at December 31, 2004, were \$111,930,824 and are presented in the fund financial statements as follows:

Balance Sheet Classification:	Combined Total
Governmental Funds Balance Sheet	
Cash and Cash Equivalents	\$2,192,580
Investments	7,632,588
Statement of Fund Net Assets – Proprietary Funds	
Enterprise Funds	
Cash and Cash Equivalents	5,042,717
Restricted Cash and Cash Equivalents	822,559
Internal Service Funds	
Cash and Cash Equivalents	1,396,796
Statement of Fiduciary Net Assets – Fiduciary Funds	
Cash and Cash Equivalents	6,952,996
Investments	86,964,885
Statement of Net Assets – Discretely Presented Component Units	
Cash and Cash Equivalents	<u>925,703</u>
	<u>\$111,930,824</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE C - CAPITAL ASSETS

- Primary Government - Capital asset activity for the year ended December 31, 2004 was as follows:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Governmental Activities				
Capital Assets Being				
Depreciated and Amortized				
Land Improvements	\$ 890,649	\$ 1,350,507	\$ -	\$2,241,156
Leasehold Improvements	-	248,295	-	248,295
Building and Other Improvements	15,140,627	1,951,529	7,351	17,084,805
Machinery and Equipment	10,758,203	533,038	492,644	10,798,597
Infrastructure	3,572,799	8,823,197	-	12,395,996
Shared Street Improvements	5,576,901	-	-	5,576,901
Total Capital Assets Being				
Depreciated and Amortized	35,939,179	12,906,566	499,995	48,345,750
Less Accumulated				
Depreciation and Amortization				
Land Improvements	152,176	35,447	-	187,623
Leasehold Improvements	-	-	-	-
Building and Other Improvements	10,917,040	625,707	7,351	11,535,396
Machinery and Equipment	8,268,764	750,625	487,738	8,531,651
Infrastructure	92,775	215,302	-	308,077
Shared Street Improvements	244,903	278,845	-	523,748
Total Accumulated				
Depreciation and Amortization	19,675,658	1,905,926	495,089	21,086,495
Net Capital Assets Being				
Depreciated and Amortized	16,263,521	11,000,640	4,906	27,259,255
Capital Assets Not Being				
Depreciated or Amortized				
Land	13,562,483	110,135	184,650	13,487,968
Construction in Progress	9,376,716	5,376,103	9,079,597	5,673,222
Total Capital Assets Not Being				
Depreciated or Amortized	22,939,199	5,486,238	9,264,247	19,161,190
Total Governmental Activities				
Capital Assets Net of				
Depreciation and Amortization	<u>\$39,202,720</u>	<u>\$16,486,878</u>	<u>\$9,269,153</u>	<u>\$46,420,445</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE C - CAPITAL ASSETS – Continued

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Business-Type Activities				
Capital Assets Being Depreciated				
Land Improvements	\$ 1,901,973	\$ -	\$ -	\$1,901,973
Buildings and Systems	50,561,243	2,630,830	-	53,192,073
Machinery and Equipment	1,576,767	-	16,459	1,560,308
Total Capital Assets Being Depreciated	54,039,983	2,630,830	16,459	56,654,354
Less Accumulated Depreciation				
Land Improvements	1,440,761	48,322	-	1,489,083
Buildings and Systems	20,008,506	845,877	-	20,854,383
Machinery and Equipment	765,773	64,521	16,459	813,835
Total Accumulated Depreciation	22,215,040	958,720	16,459	23,157,301
Net Capital Assets Being Depreciated	31,824,943	1,672,110	-	33,497,053
Capital Assets Not Being Depreciated				
Land	142,250	-	-	142,250
Construction in Progress	9,385,041	12,110,401	2,646,263	18,849,179
Total Capital Assets Not Being Depreciated	9,527,291	12,110,401	2,646,263	18,991,429
Total Business-Type Activities Capital Assets Net of Depreciation	<u>\$41,352,234</u>	<u>\$13,782,511</u>	<u>\$2,646,263</u>	<u>\$52,488,482</u>

➤ Depreciation was charged to programs of the primary government as follows:

Governmental activities	
Administrative services	\$438,130
Financial services	2,631
Public safety	96,198
Public works	89,607
Leisure services	248,429
Planning and economic development	19,057
Highways, streets and bridges	420,824
General administration	4,816
Internal service fund depreciation is charged to the various programs based on their usage of the assets	<u>586,234</u>
Total Governmental Activities Depreciation Expense	<u>\$1,905,926</u>
Business-type activities	
Water	\$303,636
Sewer	585,211
Marina	<u>69,873</u>
Total Business-Type Activities Depreciation Expense	<u>\$958,720</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE C - CAPITAL ASSETS – Continued

- Discretely Presented Component Units – Capital asset activity for the City's discretely presented component units for the year ended December 31, 2004 was as follows:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Capital Assets Being Depreciated				
Buildings and Other Improvements	\$3,798,258	\$ -	\$ -	\$3,798,258
Less Accumulated Depreciation				
Buildings and Other Improvements	14,387	172,648	-	187,035
Net Capital Assets Being Depreciated	3,783,871	172,648	-	3,611,223
Capital Assets Not Being Depreciated				
Land	400,000	-	-	400,000
Total Discretely Presented Component Units Capital Assets Net of Depreciation	<u>\$4,183,871</u>	<u>\$172,648</u>	<u>\$ -</u>	<u>\$4,011,223</u>

- Construction Commitments – As of December 31, 2004, the City and its component units had the following active construction projects and related commitments with contractors:

Project Name	Spent-to-Date	Remaining Commitment
Water Filtration Plant Improvements	\$10,473,200	\$5,440,132
Shoreline Drive Phase II	142,482	2,357,518
Mall Redevelopment Construction Engineering	146,977	152,000
Forest Street Lift Station	5,844	104,156

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE D - LONG-TERM DEBT

- Following is a summary of long-term debt transactions for the year ended December 31, 2004:

	Balance January 1, 2004	Borrowings	Payments	Balance December 31, 2004	Amounts Due Within One Year
<u>Business-Type Activities</u>					
Revenue Debt	\$9,345,000	\$8,483,766	\$420,000	\$17,408,766	\$435,000
Intergovernmental Contractual Debt	5,886,923	-	1,107,267	4,779,656	1,080,974
Long-Term Compensated Absences	189,957	19,515	31,659	177,813	30,228
	<u>15,421,880</u>	<u>8,503,281</u>	<u>1,558,926</u>	<u>22,366,235</u>	<u>1,546,202</u>
<u>Governmental Activities</u>					
Intergovernmental Contractual Debt	1,126,900	-	150,000	976,900	150,000
Michigan Transportation Fund Debt	2,785,000	-	555,000	2,230,000	585,000
General Obligation Debt	205,000	-	205,000	-	-
Special Assessment Debt	3,035,000	-	425,000	2,610,000	380,000
Long-Term Compensated Absences	1,455,952	354,498	242,658	1,567,792	261,299
	<u>8,607,852</u>	<u>354,498</u>	<u>1,577,658</u>	<u>7,384,692</u>	<u>1,376,299</u>
Total Primary Government Long-Term Debt	<u>24,029,732</u>	<u>8,857,779</u>	<u>3,136,584</u>	<u>29,750,927</u>	<u>2,922,501</u>
<u>Discretely Presented Component Units</u>					
Revenue Debt	1,000,000	-	-	1,000,000	-
General Obligation Debt	8,395,000	-	180,000	8,215,000	185,000
	<u>9,395,000</u>	<u>-</u>	<u>180,000</u>	<u>9,215,000</u>	<u>185,000</u>
	<u>\$33,424,732</u>	<u>\$8,857,779</u>	<u>\$3,316,584</u>	<u>\$38,965,927</u>	<u>\$3,107,501</u>

- The general fund typically provides the resources to liquidate the compensated absences liability.
- Long-term debt payable at December 31, 2004, consisted of the following individual issues:

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE D - LONG-TERM DEBT - Continued

Primary Government	
Business-Type Activities	
\$5,465,000 water supply system bonds of 1993 due in two installments of \$450,000 from May 1, 2012 through May 1, 2013; interest at 4.50% (unamortized discount \$14,796).	\$ 900,000
\$9,575,000 water supply system bonds of 1999 due in annual installments of \$130,000 to \$800,000 through May 1, 2019; interest at 3.95% to 4.75% (unamortized discount \$68,920).	8,025,000
\$13,900,000 drinking water state revolving fund loan of 2004 due in annual installments of \$128,766 to \$725,000 through 2019; interest at 2.125%.	8,483,766
\$6,990,000 contractual obligation of 2002 for County wastewater debt due in annual installments of \$116,862 to \$1,244,580 through 2019; interest at 2.25% to 5.00%.	3,815,544
\$8,034,263 contractual obligation of 1996 for County wastewater debt retirement with a final payment of \$964,112 on July 1, 2005; interest at 5.70%.	<u>964,112</u>
Total Bonds and Loans Payable	22,188,422
Long-term compensated absences	<u>177,813</u>
Total Business-Type Activities Long-Term Liabilities	<u>\$22,366,235</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE D - LONG-TERM DEBT - Continued

Governmental Activities	
\$1,155,000 special assessment improvement bonds of 1996 with final payment of \$25,000 on December 1, 2005; interest at 4.40%.	\$25,000
\$1,495,000 special assessment improvement bonds of 1998 due in annual installments of \$60,000 to \$165,000 through April 1, 2009; interest at 3.95% to 4.00%.	615,000
\$825,000 special assessment improvement bonds of 2000 due in annual installments of \$70,000 to \$90,000 through April 1, 2010; interest at 4.60% to 5.00%.	500,000
\$1,575,000 capital improvement bonds of 2003 due in annual installments of \$105,000 to \$150,000 through June 1, 2016; interest at 2.00% to 4.05%.	1,470,000
\$1,276,900 State of Michigan urban land assembly loan due in annual installments of \$150,000 to \$276,900 through October 31, 2009; interest free.	976,900
\$2,245,000 Michigan Transportation Fund bonds of 2002 for street improvements due in annual installments of \$370,000 to \$400,000 through June 1, 2008; interest at 2.25% to 3.13% (unamortized premium \$4,593).	1,545,000
\$1,950,000 Michigan Transportation Fund bonds of 1998 for street improvements due in annual installments of \$215,000 to \$240,000 through December 1, 2007; interest at 4.15% to 4.25%.	<u>685,000</u>
Total Bonds and Loans Payable	5,816,900
Long-term compensated absences	<u>1,461,844</u>
Total Governmental Activities Long-Term Liabilities	<u>\$7,278,744</u>
Total Primary Government Long-Term Debt	<u>\$29,644,979</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE D - LONG-TERM DEBT - Continued

<u>Discretely Presented Component Units Debt</u>	
\$1,000,000 Downtown Development Authority promissory note to Muskegon County due in a balloon payment August 30, 2019; interest free.	\$1,000,000
\$4,005,000 Downtown Development Authority tax increment refunding bonds of 2001 due in annual installments of \$185,000 to \$335,000 through June 1, 2018; interest at 4.00% to 5.00%.	3,490,000
\$4,725,000 Local Development Finance Authority tax increment bonds of 2002 for building improvements in the Smartzone Tech Park due in annual installments of \$80,000 to \$400,000 through November 1, 2025; interest at 3.25% to 4.85% (unamortized discount \$8,018).	<u>4,725,000</u>
Total Discretely Presented Component Units Long-Term Debt	<u>\$9,215,000</u>
Total Reporting Entity Long-Term Debt	<u>\$38,859,979</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE D - LONG-TERM DEBT - Continued

- The annual requirements to amortize all debt outstanding as of December 31, 2004, including interest payments of \$10,236,504 are as follows:

Year Ending December 31	Business-Type Activities		Governmental Activities		Discretely Presented Component Units		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
2005	\$1,515,974	\$780,524	\$1,115,000	\$158,123	\$185,000	\$358,340	\$4,112,961
2006	2,264,580	730,612	1,120,000	126,535	200,000	350,640	4,792,367
2007	2,277,894	637,610	1,170,000	93,966	280,000	342,640	4,802,110
2008	2,301,208	544,253	880,000	60,379	290,000	331,840	4,407,680
2009	1,110,000	450,253	536,900	43,685	300,000	320,220	2,761,058
2010	1,150,000	415,749	190,000	34,755	310,000	307,813	2,408,317
2011	1,185,000	379,461	120,000	28,805	320,000	294,605	2,327,871
2012	1,220,000	341,153	125,000	24,393	425,000	280,834	2,416,380
2013	1,260,000	301,011	130,000	19,610	500,000	262,268	2,472,889
2014	1,305,000	259,218	135,000	14,508	575,000	240,715	2,529,441
2015	1,350,000	215,510	145,000	8,975	605,000	215,435	2,539,920
2016	1,390,000	169,805	150,000	3,028	640,000	188,343	2,541,176
2017	1,440,000	122,025	-	-	670,000	159,088	2,391,113
2018	1,490,000	71,744	-	-	710,000	127,750	2,399,494
2019	928,766	21,266	-	-	1,395,000	103,063	2,448,095
2020	-	-	-	-	400,000	85,485	485,485
2021	-	-	-	-	255,000	67,085	322,085
2022	-	-	-	-	265,000	55,355	320,355
2023	-	-	-	-	280,000	43,165	323,165
2024	-	-	-	-	295,000	29,585	324,585
2025	-	-	-	-	315,000	15,279	330,279
	<u>\$22,188,422</u>	<u>\$5,440,194</u>	<u>\$5,816,900</u>	<u>\$616,762</u>	<u>\$9,215,000</u>	<u>\$4,179,548</u>	<u>\$47,456,826</u>

- Future debt service requirements (i.e. principal and interest) by type of debt are as follows:

	General Obligation Bonds		Revenue Bonds	
	General Long-Term Debt	Discretely Presented Component Units	Enterprise Funds	Discretely Presented Component Units
2005	\$ -	\$543,340	\$1,000,484	\$ -
2006	-	550,640	1,565,678	-
2007	-	622,640	1,559,904	-
2008	-	621,840	1,563,193	-
2009	-	620,220	1,560,243	-
2010	-	617,813	1,565,749	-
2011 - 2015	-	3,718,856	7,816,351	-
2016 - 2020	-	3,478,733	5,633,619	1,000,000
2021 - 2025	-	1,620,465	-	-
	<u>\$ 0</u>	<u>\$12,394,547</u>	<u>\$22,265,221</u>	<u>\$1,000,000</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE D - LONG-TERM DEBT - Continued

	<u>Intergovernmental</u>	<u>Special Assessment</u>	<u>Michigan Transportation Fund Bonds</u>
	Business- Type Activities	Governmental Activities	Governmental Activities
2005	\$1,296,015	\$150,000	\$471,865
2006	1,429,514	150,000	433,175
2007	1,355,599	200,000	395,828
2008	1,282,267	200,000	344,285
2009	-	276,900	303,684
2010	-	-	224,755
2011 -2015	-	-	751,291
2016 -2020	-	-	153,034
2021 -2025	-	-	-
	<u>\$5,363,395</u>	<u>\$976,900</u>	<u>\$3,077,917</u>

- There are a number of limitations and restrictions contained in the various bond indentures. The City is in substantial compliance with all the significant provisions of the bond indentures.
- The limited full faith and credit of the City has been pledged for repayment of special assessments bonds.
- The \$4,725,000 Local Development Finance Authority (LDFA) tax increment bonds of 2002 are partially guaranteed by the Community Foundation for Muskegon County. Beginning in 2006, if LDFA tax increment revenues are not sufficient to cover debt service costs in any year, the Foundation has agreed to pay one-half of such shortfall up to \$75,000 annually. This commitment extends through December 31, 2016.
- Construction continues on improvements to the City's water filtration plant. This project is being financed through the Michigan Drinking Water Revolving Fund Program (DWRF). Principal and interest payment schedules will be finalized upon completion of the project. The preliminary principal and interest payment schedules are used herein up to the amounts of advances as of December 31, 2004. As a result, the payment schedules for the balance of the twenty-year repayment period will increase as additional funds are advanced.

NOTE E - RECEIVABLES, PAYABLES AND TRANSFERS WITHIN THE REPORTING ENTITY

- Property taxes are collected in a central current tax fund from where they are distributed to the various taxing jurisdictions - including the City and its component units. Amounts owed the City at December 31, 2004 are shown as interfund payables/receivables. The amount due to the state grants fund from the lakeshore trail fund is for a match on a grant. Other interfund payables/receivables consist entirely of temporary loans to cover cash shortfalls in a given fund.
- Receivables and payables consisted of the following at December 31, 2004 :

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE E - RECEIVABLES, PAYABLES AND TRANSFERS WITHIN THE REPORTING ENTITY

Fund/Component Unit	Receivable	Fund/Component Unit	Payable
General	<u>\$1,321,441</u>	Current Tax	<u>\$1,321,441</u>
Major Street and Trunkline	5,207,840	General	6,448,026
Budget Stabilization	<u>1,240,186</u>		
	<u>6,448,026</u>		<u>6,448,026</u>
Equipment	909,725	Enterprise Community	4,281
Budget Stabilization	9,814	EC Micro Loan	7,723
		Rehab Loan Escrow	4,586
		HOME Rehabilitation	32,940
		Community Development Block Grant	478,104
		State Grants	290,310
		Marina	72,605
		Cemetery Perpetual Care	<u>28,990</u>
	<u>919,539</u>		<u>919,539</u>
Total Primary Government	<u>\$8,689,006</u>	Total Primary Government	<u>\$8,689,006</u>
Total Reporting Entity	<u>\$8,689,006</u>	Total Reporting Entity	<u>\$8,689,006</u>

➤ Transfers consisted of the following for the year ended December 31, 2004:

Fund	Transfers Out	Fund	Transfers In
General	\$1,156,328	Local Street	\$620,000
		L.C. Walker Arena	200,000
		State Grants	21,328
		Sidewalk Improvement	125,000
		Public Improvement	150,000
		Marina and Launch Ramp	40,000
	<u>1,156,328</u>		<u>1,156,328</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE E - RECEIVABLES, PAYABLES AND TRANSFERS WITHIN THE REPORTING ENTITY – Continued

Fund	Transfers Out	Fund	Transfers In
Budget Stabilization	250,000	General	301,209
Revolving Loan	5,000		
State Grants	2,802		
Cemetery Perpetual Care	43,407		
	<u>301,209</u>		<u>301,209</u>
Major Street and Trunkline	303,275	Local Street	300,000
		Sidewalk Improvement	3,275
	<u>303,275</u>		<u>303,275</u>
Local Street	39,446	Sidewalk Improvement	32,426
		Water	7,020
	<u>39,446</u>		<u>39,446</u>
Special Assessment Debt	<u>77,810</u>	Sidewalk Improvement	<u>77,810</u>
Public Improvement	95,400	Sewer	47,796
		Water	47,604
	<u>95,400</u>		<u>95,400</u>
Revolving Loan Fund	<u>930,000</u>	Public Improvement	<u>930,000</u>
General Insurance	<u>251,663</u>	L.C. Walker Arena	<u>251,663</u>
General Employees Retirement System	564,944	General Insurance	1,240,959
Police and Firemen Retirement System	676,015		
	<u>1,240,959</u>		<u>1,240,959</u>
Public Improvement	43,840	State Grants	329,901
Lakeshore Trail	286,061		
	<u>329,901</u>		<u>329,901</u>
Total Reporting Entity	<u>\$4,725,991</u>	Total Reporting Entity	<u>\$4,725,991</u>

➤ Each year, the general fund transfers funds to the local and major street funds and to the public improvement fund to finance capital improvement projects. The general fund also provides an operating subsidy transfer to the L.C. Walker arena fund. Also on an annual basis, the City's pension funds transfer funds to the City's insurance fund to offset the cost of retiree healthcare benefits. Other transfers between funds are made to meet grant matching requirements or other operational needs.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE F - DEFINED BENEFIT PENSION PLANS

- The primary government maintains two separate single employer contributory pension plans - the General Employees Retirement System and the Policemen and Firemen Retirement System - which cover all active full-time employees of the City. The pension plans are maintained as pension trust funds and are included as part of the City's reporting entity. Staff costs associated with administering the plans are paid from the city's general fund. Contractual service costs for investment management and consulting, actuarial services, custodial services and similar items are paid from investment earnings of the funds. Financial statements for the pension plans can be obtained from the administrative office 933 Terrace Street, Muskegon, MI 49443.
- Plan Descriptions - The following schedule is derived from the respective actuarial reports and from City information and reflects accounting policies, membership and plan provisions and actuarial assumptions for the two pension plans as of December 31, 2003:

	General Employees	Policemen and Firemen
General Information:		
Authority	City Ordinance	City Ordinance
Basis of Accounting	Accrual	Accrual
Asset Valuation:		
Reporting	Fair Value	Fair Value
Actuarial Valuation	Four-Year Smoothed Market	Four-Year Smoothed Market
Valuation Date	December 31, 2003	December 31, 2003
Actuarial Cost Method	Entry Age Normal – level percent of compensation	Entry Age Normal – level percent of compensation
Amortization Method	Level Percent (Open)	Level Percent (Open)
Remaining Amortization Period	10 Years	10 Years
Non-government investments in excess of 5%	None	None
Membership And Plan Provisions:		
Members:		
Active Participants	167	121
Retirees and Beneficiaries Receiving Benefits	158	155
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	22	6
Member Contributions:		
First \$4,200 of Earnings	3.0%	6.0%
Excess of \$4,200 of Earnings	5.0%	6.0%

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE F - DEFINED BENEFIT PENSION PLANS - Continued

	General Employees	Policemen and Firemen
Normal Retirement Benefit:		
Retirement Age	55 - 60	53 - 55
Years of Service (Minimum)	5 - 30	10 - 25
Accrual (First \$4,200 final average compensation)	1.9% - 2.25%	2.5% - 2.6%
Final average compensation in excess of \$4,200	1.9% - 2.25%	2.5% - 2.6%
Maximum (% of final average compensation)	None	75%-80%
Years to Vest	5 - 10	10
Assumptions:		
Investment Earnings	8.0%	8.0%
Salary Increases	5.0% - 8.8%	5.0% - 8.0%
Investment and salary assumptions include inflation at 5.0%.		

- Basis of Accounting - The pension plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period they are due. The City's contributions to the plans are recognized when due and the City has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.
- Funding Policy - The City is obligated by the state constitution to make annual contributions to each of its pension plans based on actuarially computed percentages of covered wages in amounts sufficient to cover the normal cost of benefits and amortize prior service liabilities over a period of future years. Actuarial assumptions used in determining the annual funding requirements are set by the boards of trustees of each system. During the year ended December 31, 2004, contributions were made to the plans in accordance with contribution requirements determined by actuarial valuations of the plans as of December 31, 2003, and were as follows:

	General Employees	Policemen and Firemen
Retirement Contributions – Members	\$320,651	\$ 396,373
Retirement Contributions – City	<u>382,193</u>	<u>1,035,172</u>
	<u>\$702,844</u>	<u>\$1,431,545</u>

- Benefits – Pension benefit levels are established through negotiation and contract with the City's various collective bargaining units. Benefit levels for non-represented employees are established by policy of the City Commission.
- Investments - Investments are reported at fair value which is determined using selected bases as follows: short-term investments are reported at cost which approximates fair value; securities traded on a national exchange are valued at the last reported sales price; investments that do not have established fair values are reported at estimated fair value; and, cash deposits are reported at carrying amount which reasonably estimates fair value. The following summarizes the carrying values of investments of the City's two pension plans at December 31, 2004:

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE F - DEFINED BENEFIT PENSION PLANS - Continued

	Cost	Fair Value
General Employees		
Bond index fund	\$11,705,710	\$12,522,254
Common stocks (collective funds)	15,001,083	22,921,644
Other instruments	<u>530,763</u>	<u>530,763</u>
	<u>\$27,237,556</u>	<u>\$35,974,661</u>
Policemen and Firemen		
Bond index fund	\$14,174,505	\$15,163,262
Common stocks (collective funds)	20,687,008	31,534,718
Other instruments	<u>521,334</u>	<u>521,334</u>
	<u>\$35,382,847</u>	<u>\$47,219,314</u>

- GASB 25 Required Information - Three-year trend information as required by GASB 25 is presented below. GASB 25 required supplementary information is presented after the Notes to the Financial Statements.

Trend Information				
Actuarial Valuation Dated December 31,	Fiscal Year Ended December 31,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
<u>General Employees</u>				
1999	2001	\$ -	-	-
2000	2002	-	-	-
2001	2003	121,414	100.00%	-
<u>Policemen and Firemen</u>				
1999	2001	\$96,549	100.00%	-
2000	2002	290,431	100.00%	-
2001	2003	435,687	100.00%	-

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE G - OTHER POST EMPLOYMENT BENEFITS

- In addition to the pension benefits described in Note F, the City provides healthcare benefits to retirees receiving a City pension. As of December 31, 2004, 313 retirees or beneficiaries were eligible for post-employment health care benefits. Specific benefit provisions vary by employee group; however, in general, benefits for retirees under age 65 are the same as for regular employees while retirees over 65 receive a Medicare supplemental benefit. Since 1987, the City has had an actuarial valuation of its post employment healthcare obligation performed each year and has followed a program of prefunding the obligation in the same manner as it funds the pension obligation. During 2004, the City made contributions to the retiree healthcare program as follows:

	General Employees	Police and Firemen
Contribution	\$ 325,694	\$ 641,607
As a % of Payroll	4.9%	9.7%

As of December 31, 2003 the total unfunded actuarial accrued liability computed for the City's retiree health benefits was \$7,326,180.

NOTE H - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS

- P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2004, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Amended Budget	Actual Expenditures
Local Street Fund	\$1,850,000	\$1,882,327
Major Street and Trunkline Fund	7,360,000	7,449,375

- The budget overage in the above funds resulted from higher than expected year-end accruals of certain project expenses.
- All expenditures over appropriations have either been paid by available revenues, transfers from other funds or by reduction of the current fund balance.

NOTE I – SECTION 457 DEFERRED COMPENSATION PLAN

- The City offers all full-time employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the City's financial statements.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE J - RISK MANAGEMENT

- The City purchases insurance, participates in public entity risk pools and is self-insured for the various risks associated with City operations. The City's risk financing activities are accounted for in the general insurance internal service fund. Significant risk management activities of the City are accounted for and disclosed below as required by GASB 10.
- The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City obtains its liability and property insurance coverage as a member of the Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool providing liability and property coverage to its participating members. The City pays an annual premium to MMRMA for liability insurance coverage. The MMRMA is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence based coverage by internally insuring certain risks and reinsuring risks through commercial companies. A \$100,000 deductible is maintained to place the responsibility for small charges with the City. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2004 and 2003 were as follows:

	City General Liability	
	2004	2003
Claims Liability at January 1	\$120,829	\$119,422
Current Year Claims and Changes in Estimates	80,081	115,266
Claim Payments	<u>(83,333)</u>	<u>(113,859)</u>
Claims Liability at December 31	<u>\$117,577</u>	<u>\$120,829</u>

- The City manages workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public risk pool providing workers' compensation coverage to its members. The City pays an annual premium to MMWCSIF for its workers compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers compensation coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.
- The City is self-insured for employee health care benefits for those employees selecting the City plan over other options. Under this plan, the general insurance fund provides coverage for up to a maximum of \$125,000 per covered individual. As of December 31, 2004, the claims liability including incurred but not reported claims was \$85,879. A liability was recorded in the accompanying financial statements for the estimated claims liability. The claims liability was based on past experience, a review of pending claims and other social and economic factors. The above estimate was not discounted and there were no outstanding claims for which annuity contracts have been purchased in the claimant's name. No significant reductions in insurance coverage were made in the last fiscal year. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2004 and 2003 were as follows:

	City Employee Medical	
	2004	2003
Claims Liability at January 1	\$97,521	\$97,055
Current Year Claims and Changes in Estimates	1,376,480	1,527,828
Claim Payments	<u>(1,388,122)</u>	<u>(1,527,362)</u>
Claims Liability at December 31	<u>\$85,879</u>	<u>\$97,521</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE K - CONTINGENCIES

- The City has advanced funds in the amount of \$1,933,844 to the Downtown Development Authority (DDA) for activities involving redevelopment of the downtown area. Repayment of these advances is contingent upon collection of tax increment revenue (or "Proposal A" replacement revenues from the State) in excess of the amounts needed for debt service payments on outstanding bond issues. Repayment was uncertain and the advances were written off for financial statement purposes. If excess tax increment revenue (or "Proposal A" replacement revenues from the State) become available, the City will apply such revenue to repayment of the advances. The following advances were outstanding at December 31, 2004:

Date of Obligation	Original Amount	Outstanding Balance	Interest Rate
8/10/1989	\$1,150,000	\$1,150,000	0.0%
8/31/1989	783,844	662,032	7.0%

- The City is party to various other legal proceedings and claims which normally occur in governmental operations. Although the outcome of these legal proceedings and claims are not presently determinable, it is the opinion of the City's management that the resolution of these matters will not have a material adverse effect on the financial condition of the City.
- In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE L - DESIGNATED FUND BALANCE

- Unreserved fund balances designated for specific purposes at December 31, 2004, are as follows:

Public Improvement Fund	
Designated for Fire Equipment Replacement	\$470,086
Designated for Pere Marquette Park Improvements	<u>6,027</u>
	<u>\$476,113</u>

NOTE M – PRIOR PERIOD ADJUSTMENT

- Local street fund financial statements for December 31, 2003 included \$129,500 of accrued special assessment revenue which was not collected because the assessment was deferred by the City in 2004. Therefore, the December 31, 2004 financial statements incorporate a prior period adjustment which has the effect of reducing the beginning local street fund balance by \$129,500. The restatement has no effect on the net assets of the City. The adjustment was made without material impact on city operations.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE N – SUBSEQUENT YEAR INFORMATION

- Effective January 1, 2005, the wastewater service agreement between the County of Muskegon and thirteen local unit users, including the City of Muskegon, was amended to provide financial relief to the County's largest industrial wastewater user. Under terms of the amendment, the allocation of debt service costs charged to each local unit user will increase. The impact of this change on the City of Muskegon's sewer fund is estimated as follows:
- The sewer fund's total debt obligation ("Contracts payable-Muskegon County") will decrease by 15%. This is because the major industrial user that is recipient of the relief measure is a City of Muskegon sewer customer. The City carries on its books the portion of the debt guaranteed by this industrial user since it is ultimately liable for repayment of this debt.
- The sewer fund's annual debt service costs and wastewater user charges will increase as follows:
- Debt service – Annual payments on two outstanding Muskegon County wastewater bond issues will increase for all local units (including the City) by twenty-one percent. The City estimates the 2005 financial impact to be \$110,911. These bond issues will be fully retired in 2008.
- User charges – Additional County wastewater debt is paid by local unit users through user charges based on metered sewage flows. Payments on these issues will increase for all local units (including the City) by forty-five percent. The City of Muskegon estimates the 2005 financial impact to be \$84,000.

NOTE O – STATE CONSTRUCTION CODE ACT

- P.A. 245 of 1999, section 22(1) of the State Construction Code Act, requires fees generated by enforcing agencies of construction board of appeals be intended to bear a reasonable relationship to the actual cost of performing those services. The fees generated by the City's enforcing agencies and the costs of providing those services were as follows for the year ended December 31, 2004:

<hr/>	
Revenues	
Building permits	\$350,102
Plumbing permits	50,711
Mechanical permits	66,682
Electrical permits	103,989
Total Revenues	<hr/>
	\$571,484
Expenses	
Salaries and benefits	\$780,291
Supplies	18,942
Contractual services	189,915
Other expenses	9,908
Total Expenses	<hr/>
	\$999,056
Deficiency of revenues under expenses	<hr/>
	(\$427,572)
<hr/>	

REQUIRED SUPPLEMENTARY INFORMATION

City of Muskegon
General Fund

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

Year Ended December 31, 2004
(With Comparative Actual Amounts for Year Ended December 31, 2003)

	2004				2003
	Original Budget	Amended Budget	Actual	Variance - With Amended Budget Positive (Negative)	Actual
Revenues					
Taxes					
City income tax	\$ 6,450,000	\$ 7,004,400	\$ 7,033,387	\$ 28,987	\$ 6,542,355
Property taxes	6,330,610	6,253,900	6,253,935	35	6,175,861
Industrial facilities taxes	364,327	398,900	398,934	34	446,557
Payments in lieu of taxes	80,000	72,800	72,816	16	70,085
Delinquent chargeback collected	15,000	7,900	7,968	68	11,886
Total taxes	13,239,937	13,737,900	13,767,040	29,140	13,246,744
Licenses and permits					
Business licenses	34,500	33,800	33,835	35	28,455
Liquor licenses	37,500	35,600	35,681	81	36,427
Cable TV fees	270,000	333,600	333,618	18	265,532
Telecom fees	140,000	-	-	-	32,024
Housing licenses	80,000	46,600	46,625	25	96,265
Rental property registration	-	14,500	14,584	84	-
Burial permits	110,000	102,700	102,702	2	103,564
Building permits	300,000	350,100	350,102	2	275,642
Electrical permits	135,000	103,900	103,989	89	125,718
Plumbing permits	60,000	50,700	50,711	11	50,030
Mechanical permits	100,000	66,600	66,682	82	94,013
Cat licenses	-	400	485	85	-
Police gun registration	1,000	-	-	-	1,110
Total licenses and permits	1,268,000	1,138,500	1,139,014	514	1,108,780
Federal grants					
Federal operational grants	100,087	233,100	233,158	58	211,597
State grants					
State operational grants	27,000	33,100	33,127	27	23,264
State shared revenues					
State sales tax	5,000,000	4,651,300	4,645,348	(5,952)	4,938,861
Charges for services					
Tax administration fees	233,000	228,800	228,801	1	264,949
Utility administration fees	183,439	183,400	183,439	39	183,439
Downtown Development Authority administration fees	10,000	10,000	10,000	-	10,000
Reimbursement for elections	13,000	15,600	15,626	26	30,648
Indirect cost reimbursement	1,012,708	1,012,700	1,012,708	8	974,894
Site plan review fee	1,000	2,700	2,700	-	780
Sale of cemetery lots	20,000	18,300	18,324	24	18,233
Police miscellaneous	65,000	64,600	64,684	84	83,060
Police impound fees	40,000	49,300	49,320	20	65,010
Landlord's alert fee	-	-	40	40	315
Fire protection-state property	42,000	45,400	45,423	23	45,965
Zoning fees	13,000	18,600	18,680	80	11,880
Clerk fees	4,035	3,100	3,162	62	2,022
Clerk fees - passport fees	2,500	2,500	2,550	50	1,735
Tax abatement application fees	6,000	13,600	13,636	36	16,020
Treasurer fees	33,000	45,900	45,909	9	20,702
False alarm fees	20,000	12,400	12,425	25	11,429
Miscellaneous cemetery income	24,000	24,700	24,722	22	21,763
Senior transit program fees	8,000	6,800	6,864	64	6,651
Fire miscellaneous	5,000	18,100	18,183	83	11,410
Township electrical services	-	13,600	13,608	8	13,297
Sanitation stickers	55,000	62,700	62,704	4	49,856
Lot cleanup fees	70,000	40,600	40,633	33	91,709
Reimbursements - lot mowing and demolitions	70,000	36,800	36,820	20	158,315
Special events reimbursements	-	101,800	101,822	22	30,610
Recreation program fees	125,101	105,800	105,895	95	116,174
Total charges for services	2,055,783	2,137,800	2,138,678	878	2,240,866

City of Muskegon
General Fund

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED**

Year Ended December 31, 2004
(With Comparative Actual Amounts for Year Ended December 31, 2003)

	2004			Variance - With Amended Budget Positive (Negative)	2003
	Original Budget	Amended Budget	Actual		Actual
Revenues (continued)					
Interest and rental income					
Interest	\$ 70,000	\$ 17,200	\$ 17,275	\$ 75	\$ 48,583
Flea market	28,000	31,900	31,998	98	31,867
Farmers' market	28,000	25,800	25,829	29	29,880
City right of way rental	4,400	4,400	4,400	-	4,400
Parking rentals	5,000	3,200	3,245	45	6,017
McGraft park rentals	46,288	49,100	49,181	81	41,338
Other park rentals	28,365	28,800	28,838	38	27,400
Total interest and rental income	210,053	160,400	160,766	366	189,485
Fines and fees					
Income tax - penalty and interest	150,000	293,900	293,971	71	194,562
Late fees on current taxes	25,000	89,400	89,452	52	52,791
Interest on late invoices	750	800	877	77	549
Parking fines	100,000	100,400	100,425	25	71,698
Court fines	160,000	137,400	137,440	40	152,082
Total fines and fees	435,750	621,900	622,165	265	471,682
Other					
Sale of land and assets	1,000	-	-	-	-
Police sale and auction proceeds	4,000	1,500	1,577	77	1,139
CDBG program reimbursements	267,000	291,900	291,983	83	234,079
Contributions	11,000	18,000	18,030	30	35,461
Contributions - Veteran's Park Maintenance	17,250	20,400	20,449	49	-
Community Foundation for Muskegon County	7,000	8,000	8,000	-	33,000
Miscellaneous reimbursements	1,000	-	-	-	14,232
Miscellaneous and sundry	15,000	21,200	21,249	49	13,284
Total other	323,250	361,000	361,288	288	331,195
Total revenues	22,659,860	23,075,000	23,100,584	25,584	22,762,474
Expenditures					
Current					
Public representation services					
City commission	103,078	85,000	83,235	1,765	103,449
City promotions and public relations	25,102	12,000	10,476	1,524	30,552
City manager	208,094	202,000	199,208	2,792	188,327
Contributions to outside agencies	151,500	150,000	147,294	2,706	182,259
City attorney	390,121	430,000	429,129	871	384,601
Total public representation services	877,895	879,000	869,342	9,658	889,188
Administrative services					
Administration	167,992	153,000	150,458	2,542	145,710
City clerk	303,985	314,000	311,589	2,411	319,921
Civil service	169,863	166,000	162,874	3,126	214,794
Julia Hackley internships	7,736	9,000	8,931	69	7,837
Affirmative action	84,054	73,000	70,815	2,185	97,704
Total administrative services	733,630	715,000	704,667	10,333	785,966
Financial services					
Finance administration	406,781	401,000	397,245	3,755	396,077
Assessing	406,537	408,000	406,895	1,105	400,986
Income tax administration	314,924	316,000	313,096	2,904	298,172
Information systems	376,110	340,000	336,909	3,091	357,749
City treasurer	357,173	378,000	375,131	2,869	393,574
Total financial services	1,861,525	1,843,000	1,829,276	13,724	1,846,558
Public safety					
Police department	7,957,780	7,674,000	7,672,617	1,383	7,123,529
Fire department	3,439,678	3,603,000	3,601,008	1,992	3,366,426
Fire safety inspections	1,064,634	1,001,000	999,056	1,944	947,561
Total public safety	12,462,092	12,278,000	12,272,681	5,319	11,437,516

City of Muskegon
General Fund

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED**

Year Ended December 31, 2004
(With Comparative Actual Amounts for Year Ended December 31, 2003)

	2004				2003
	Original Budget	Amended Budget	Actual	Variance - With Amended Budget Positive (Negative)	Actual
Expenditures (continued)					
Current (continued)					
Public works					
Streetlighting	\$ 515,000	\$ 507,000	\$ 506,589	\$ 411	\$ 509,524
Community event support	15,429	43,000	41,921	1,079	55,104
Senior citizen transit	61,108	51,000	49,204	1,796	48,886
General sanitation	1,520,135	1,531,000	1,529,206	1,794	1,608,639
Recycling	140,179	160,000	159,996	4	233,308
Stormwater management	15,429	14,000	12,191	1,809	6,905
City hall maintenance	265,345	252,000	244,405	7,595	268,875
Total public works	2,532,625	2,558,000	2,543,512	14,488	2,731,241
Leisure services					
Parks maintenance	1,230,148	1,201,000	1,198,518	2,482	1,290,790
McGraft park maintenance	46,288	64,000	60,489	3,511	44,940
General and inner city recreation programs	393,703	354,000	350,878	3,122	464,791
Cemeteries maintenance	479,299	485,000	482,300	2,700	510,780
Forestry	88,781	89,000	87,519	1,481	136,674
Graffiti removal	-	6,000	4,601	1,399	-
Parking operations	23,144	29,000	27,342	1,658	130,356
Farmers' market and flea market	40,117	49,000	48,052	948	45,944
Total leisure services	2,301,480	2,277,000	2,259,699	17,301	2,624,275
Planning and economic development					
Planning, zoning and economic development	489,898	403,000	400,017	2,983	512,686
Environmental services	406,692	399,000	397,055	1,945	474,411
Total planning and economic development	896,590	802,000	797,072	4,928	987,097
Other governmental functions					
Insurance premiums	379,061	323,000	322,233	767	335,805
Other	400,000	430,000	404,953	25,047	324,125
Total other governmental functions	779,061	753,000	727,186	25,814	659,930
Capital outlay					
Major capital improvements	-	12,000	11,373	627	285,310
Debt service					
Principal	205,000	205,000	205,000	-	195,000
Interest	11,816	12,000	11,884	116	22,397
Total debt service	216,816	217,000	216,884	116	217,397
Total expenditures	22,661,714	22,334,000	22,231,692	102,308	22,464,478
Excess (deficiency) of revenues over expenditures	(1,854)	741,000	868,892	127,892	297,996
Other financing sources (uses)					
Transfers in	585,000	300,100	301,209	1,109	566,282
Transfers out	(970,000)	(1,157,000)	(1,156,328)	672	(1,240,856)
Total other financing sources (uses)	(385,000)	(856,900)	(855,119)	1,781	(674,574)
Net change in fund balances	(386,854)	(115,900)	13,773	129,673	(376,578)
Fund balances at beginning of year	2,431,418	2,431,418	2,431,418	-	2,807,996
Fund balances at end of year	\$ 2,044,564	\$ 2,315,518	\$ 2,445,191	\$ 129,673	\$ 2,431,418

City of Muskegon
Major Special Revenue Funds

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL**

Year Ended December 31, 2004

	Major Street and Trunkline Fund				Local Street Fund			
	Original Budget	Amended Budget	Actual	Variance-With Amended Budget Positive (Negative)	Original Budget	Amended Budget	Actual	Variance-With Amended Budget Positive (Negative)
Revenues								
Special assessments	\$ 250,000	\$ 275,000	\$ 296,857	\$ 21,857	\$ 125,000	\$ 85,500	\$ 85,557	\$ (43)
Federal grants	841,660	640,200	779,854	139,654	-	-	-	-
State grants	6,000,000	3,000,000	3,012,583	12,583	-	138,000	138,050	50
State shared revenues	2,870,326	2,650,000	2,760,477	110,477	693,934	699,000	699,026	26
Charges for services	300,000	300,000	300,143	143	270,000	264,000	263,998	(2)
Interest income	50,000	75,000	154,196	79,196	-	24,100	24,065	(35)
Other	-	1,600	1,597	(3)	1,000	600	618	18
Total revenues	10,311,986	6,941,800	7,305,707	363,907	1,089,934	1,211,300	1,211,314	14
Expenditures								
Current								
Highway, streets and bridges	9,621,478	6,722,674	6,812,050	(89,376)	2,022,769	1,850,000	1,842,881	7,119
Debt service								
Principal	555,000	555,000	555,000	-	-	-	-	-
Interest	82,326	82,326	82,325	1	-	-	-	-
Total expenditures	10,258,804	7,360,000	7,449,375	(89,375)	2,022,769	1,850,000	1,842,881	7,119
Excess (deficiency) of revenues over expenditures	53,182	(418,200)	(143,668)	274,532	(932,835)	(638,700)	(631,567)	7,133
Other financing sources (uses)								
Transfers in	-	-	-	-	950,000	920,000	920,000	-
Transfers out	(300,000)	(300,000)	(303,275)	(3,275)	-	-	(39,446)	(39,446)
Total other financing sources (uses)	(300,000)	(300,000)	(303,275)	(3,275)	950,000	920,000	880,554	(39,446)
Net change in fund balances	(246,818)	(718,200)	(446,943)	271,257	17,165	281,300	248,987	(32,313)
Fund balances at beginning of year	1,413,108	1,413,108	1,413,108	-	145,641	145,641	145,641	-
Prior period adjustment	-	-	-	-	-	-	(129,500)	(129,500)
As restated	1,413,108	1,413,108	1,413,108	-	145,641	145,641	16,141	(129,500)
Fund balances at end of year	\$ 1,166,290	\$ 694,908	\$ 966,165	\$ 271,257	\$ 162,806	\$ 426,941	\$ 285,128	\$ (161,813)

City of Muskegon
REQUIRED SUPPLEMENTARY INFORMATION FOR PENSION PLANS - GASB 25
December 31, 2004

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

Schedule of Funding Progress

Actuarial Valuation Date December 31,	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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General Employees Retirement System

1998	\$25,503,969	\$20,235,071	(\$5,268,898)	126.0%	\$5,937,337	-
1999	26,388,008	22,230,860	(4,157,148)	118.7%	6,119,765	-
2000	27,339,523	23,036,525	(4,302,998)	118.7%	6,270,574	-
2001	27,797,306	24,566,385	(3,230,921)	113.2%	6,296,642	-
2002	26,881,785	25,872,132	(1,009,653)	103.9%	6,545,937	-
2003	27,131,973	27,401,129	269,056	99.0%	6,780,771	4.0%

Policemen and Firemen Retirement System

1998	\$38,016,174	\$31,981,726	(\$6,034,448)	118.9%	\$5,452,784	-
1999	39,642,868	34,735,474	(4,907,394)	114.1%	6,245,973	-
2000	40,598,831	37,547,042	(3,051,789)	108.1%	6,417,659	-
2001	40,380,489	38,591,701	(1,788,788)	104.6%	6,069,551	-
2002	38,279,705	41,511,057	3,231,352	92.2%	6,391,031	50.6%
2003	38,085,240	42,980,872	4,895,632	88.6%	6,655,984	73.6%

Schedule of Employer Contributions

Fiscal Year Ended December 31,	Contribution Rates as Percentage of Valuation Payroll	Annual Required Contribution	Actual Annual Contribution	Percentage Contributed
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General Employees Retirement System

1998	0.75%	\$45,654	\$45,654	100.00%
1999	0.00%	-	11	-
2000	0.80%	50,987	50,987	100.00%
2001	0.00%	-	-	-
2002	0.00%	-	-	-
2003	1.75%	121,414	121,414	100.00%

Policemen and Firemen Retirement System

1998	4.03%	\$221,893	\$221,893	100.00%
1999	2.35%	130,385	130,385	100.00%
2000	1.54%	98,491	98,491	100.00%
2001	1.47%	96,549	96,549	100.00%
2002	4.30%	290,431	290,431	100.00%
2003	6.29%	435,687	435,687	100.00%

SUPPLEMENTAL FINANCIAL INFORMATION

Non-Major Governmental Funds

Special Revenue Funds

The special revenue funds are used to account for the proceeds of special revenue sources that are legally restricted to expenditures for specific purposes.

Budget Stabilization - to account for funds appropriated from the City's general fund for the purpose of mitigating adverse affects on the City's budget from downturns in the business cycle.

Criminal Forfeitures - to account for receipts generated through the sale of assets seized through criminal court proceedings.

Land Reutilization - to account for proceeds received from the sale of tax reverted properties and costs associated with improving and marketing these properties.

Tree Replacement - to account for contributions and other revenues earmarked for tree replacement throughout the City.

Enterprise Community - to account for federal grant revenues received under the Title XX Enterprise Communities program.

L.C. Walker Arena - to account for revenues received for the operation and maintenance of the L.C. Walker Arena.

Debt Service Funds

Debt service funds are used to record the funding and payment of principal and interest on general long-term debt.

Special Assessment Debt Service - to account for the accumulation of resources and the payment of principal and interest on the Special Assessment Improvement Bonds of 1998.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds.

Sidewalk Replacement - to account for resources allocated for a multi-year citywide sidewalk replacement program.

Michcon Remediation - to account for reimbursements received from Michcon Gas Company for environmental remediation of their former downtown site.

Public Improvement – to account for grants, private contributions, sale of property and other financial resources used to finance various capital projects.

Community Development Block Grant - to account for categorical grants received from the U. S. Department of Housing and Urban Development for the construction of major city public improvements and the rehabilitation of residential housing and other qualifying expenditures.

State Grants – to account for grant revenues received from the State of Michigan and earmarked for the purpose of improvements and/or rehabilitation of City property, environmental remediation at lakeshore sites or new infrastructure in the City's downtown.

Lakeshore Trails – to account for funds received for the purpose of construction the Lakeshore Trails.

HOME Rehabilitation – to account for grant revenues received from the U. S. Department of Housing and Urban Development for the purpose of providing housing assistance to low and moderate income households in the City.

EDC Revolving Loan – to account for funds received upon repayment of UDAG loans and subsequently relaned to small business enterprises.

EC Mirco Loan – to account for grant funds received through the Federal Enterprise Community program for purposes of making small loans to startup business enterprises and to account for repayment of those loans.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Cemetery Perpetual Care – to account for charges for services collected and investment income earned and to account for transfers to the general fund to partially cover cemetery perpetual care expenses.

**City of Muskegon
Non-Major Governmental Funds**

COMBINING BALANCE SHEET

December 31, 2004

	Special Revenue Funds	Debt Service Fund - Special Assessment Debt Service	Capital Projects Funds	Permanent Fund -Cemetery Perpetual Care	Total Non-Major Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 212,150	\$ -	\$ 1,844,964	\$ -	\$ 2,057,114
Investments	-	-	-	1,200,238	1,200,238
Receivables					
Accounts and loans	74,494	-	773,492	11,667	859,653
Special assessment	-	-	1,128,895	-	1,128,895
Due from other funds	1,250,000	-	-	-	1,250,000
Due from other governmental units	4,281	-	862,585	-	866,866
Prepaid items	2,193	-	-	-	2,193
TOTAL ASSETS	\$ 1,543,118	\$ -	\$ 4,609,936	\$ 1,211,905	\$ 7,364,959
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 50,056	\$ -	\$ 39,022	\$ -	\$ 89,078
Accrued payroll	-	-	6,995	-	6,995
Due to other funds	4,281	-	809,077	28,990	842,348
Deferred revenue	-	-	1,567,175	-	1,567,175
Total liabilities	54,337	-	2,422,269	28,990	2,505,596
Fund balances					
Reserved for prepaid items	2,193	-	-	-	2,193
Reserved for perpetual care	-	-	-	1,160,019	1,160,019
Unreserved					
Designated for approved projects	-	-	476,113	-	476,113
Undesignated	1,486,588	-	1,711,554	22,896	3,221,038
Total fund balances	1,488,781	-	2,187,667	1,182,915	4,859,363
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,543,118	\$ -	\$ 4,609,936	\$ 1,211,905	\$ 7,364,959

**City of Muskegon
Non-Major Governmental Funds**

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	Special Revenue Funds	Debt Service Fund - Special Assessment Debt Service	Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care	Total Non-Major Governmental Funds
Revenues					
Special assessments	\$ -	\$ -	\$ 321,050	\$ -	\$ 321,050
Federal grants	4,000	-	2,127,723	-	2,131,723
State grants	-	-	1,015,519	-	1,015,519
Charges for services	711,164	-	-	23,237	734,401
Interest income	3,715	2,364	87,541	2,505	96,125
Other					
Contributions	56,000	-	332,991	-	388,991
Miscellaneous	28,633	-	147,301	-	175,934
Total revenues	803,512	2,364	4,032,125	25,742	4,863,743
Expenditures					
Current					
Public safety	4,996	-	-	-	4,996
Other governmental functions	981,682	-	-	-	981,682
Capital outlay	248,295	-	5,879,929	-	6,128,224
Debt services					
Principal	-	56,282	518,718	-	575,000
Interest	-	21,378	85,860	-	107,238
Total expenditures	1,234,973	77,660	6,484,507	-	7,797,140
Excess (deficiency) of revenues over expenditures	(431,461)	(75,296)	(2,452,382)	25,742	(2,933,397)
Other financing sources (uses)					
Transfers in	451,663	-	1,669,740	-	2,121,403
Sale of property	-	-	483,544	-	483,544
Transfers out	(250,000)	(77,810)	(1,363,103)	(43,407)	(1,734,320)
Total other financing sources (uses)	201,663	(77,810)	790,181	(43,407)	870,627
Net change in fund balances	(229,798)	(153,106)	(1,662,201)	(17,665)	(2,062,770)
Fund balances at beginning of year	1,718,579	153,106	3,849,868	1,200,580	6,922,133
Fund balances at end of year	\$ 1,488,781	\$ -	\$ 2,187,667	\$ 1,182,915	\$ 4,859,363

City of Muskegon
Non-Major Special Revenue Funds

COMBINING BALANCE SHEET

December 31, 2004

	Budget Stabilization	Criminal Forfeitures	Land Reutilization	Tree Replacement	Enterprise Community	L.C. Walker Arena	Special Revenue Funds	Total Non-Major
\$	-	\$ 164,705	\$ 23,875	\$ 12,293	\$ -	\$ 11,277	\$	212,150
	-	-	-	-	-	74,494		74,494
1,250,000	-	-	-	-	-	-		1,250,000
	-	-	-	-	4,281	-		4,281
	-	-	-	-	-	2,193		2,193
TOTAL ASSETS	\$ 1,250,000	\$ 164,705	\$ 23,875	\$ 12,293	\$ 4,281	\$ 87,964	\$	1,543,118

ASSETS

Cash and cash equivalents
Accounts receivable
Due from other funds
Due from other governmental units
Prepaid items

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable
Due to other funds
Total liabilities

\$	-	\$ 407	\$ -	\$ -	\$ -	\$ 49,649	\$	50,056
	-	-	-	-	4,281	-		4,281
	-	407	-	-	4,281	49,649		54,337

Fund balances

Reserved for prepaid items
Unreserved
Total fund balances

	-	-	-	-	-	2,193		2,193
1,250,000	164,298	23,875	12,293	-	-	36,122		1,486,588
1,250,000	164,298	23,875	12,293	-	-	38,315		1,488,781

TOTAL LIABILITIES AND FUND BALANCES	\$ 1,250,000	\$ 164,705	\$ 23,875	\$ 12,293	\$ 4,281	\$ 87,964	\$	1,543,118
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City of Muskegon
Non-Major Special Revenue Funds

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

Year Ended December 31, 2004

	Budget Stabilization	Criminal Forfeitures	Land Reutilization	Tree Replacement	Enterprise Community	L.C. Walker Arena	Total Non-Major Special Revenue Funds
Revenues							
Federal grants	\$ -	\$ -	\$ -	\$ 4,000	\$ -	\$ -	\$ 4,000
Charges for services	-	-	-	100	-	711,064	711,164
Interest income	-	1,784	299	139	-	1,493	3,715
Other	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	56,000	56,000
Miscellaneous	-	22,530	-	-	-	6,103	28,633
Total revenues	-	24,314	299	4,239	-	774,660	803,512
Expenditures							
Current							
Public safety	-	4,996	-	-	-	-	4,996
Other governmental functions	-	-	-	4,380	-	977,302	981,682
Capital outlay	-	-	-	-	-	248,295	248,295
Total expenditures	-	4,996	-	4,380	-	1,225,597	1,234,973
Excess (deficiency) of revenues over expenditures	-	19,318	299	(141)	-	(450,937)	(431,461)
Other financing sources (uses)							
Transfers in	-	-	-	-	-	451,663	451,663
Transfers out	(250,000)	-	-	-	-	-	(250,000)
Total other financing sources (uses)	(250,000)	-	-	-	-	451,663	201,663
Net change in fund balances	(250,000)	19,318	299	(141)	-	726	(229,798)
Fund balances at beginning of year	1,500,000	144,980	23,576	12,434	-	37,589	1,718,579
Fund balances at end of year	\$ 1,250,000	\$ 164,298	\$ 23,875	\$ 12,293	\$ -	\$ 38,315	\$ 1,488,781

City of Muskegon
Non-Major Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL

Year Ended December 31, 2004

	Budget Stabilization Fund			Criminal Forfeitures Fund			Land Reutilization		
	Amended Budget	Actual	Variance-Positive (Negative)	Amended Budget	Actual	Variance-Positive (Negative)	Amended Budget	Actual	Variance-Positive (Negative)
Revenues									
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	-	-	-	-	-
Interest income	-	-	-	1,775	1,784	9	200	299	99
Other	-	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	22,525	22,530	5	-	-	-
Total revenues	-	-	-	24,300	24,314	14	200	299	99
Expenditures									
Current									
Public safety	-	-	-	5,000	4,996	4	-	-	-
Other governmental functions	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	5,000	4,996	4	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	-	19,300	19,318	18	200	299	99
Other financing sources (uses)									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	(250,000)	(250,000)	-	-	-	-	-	-	-
Total other financing sources (uses)	(250,000)	(250,000)	-	-	-	-	-	-	-
Net change in fund balances	(250,000)	(250,000)	-	19,300	19,318	18	200	299	99
Fund balances at beginning of year	1,500,000	1,500,000	-	144,980	144,980	-	23,576	23,576	-
Fund balances at end of year	\$ 1,250,000	\$ 1,250,000	\$ -	\$ 164,280	\$ 164,298	\$ 18	\$ 23,776	\$ 23,875	\$ 99

City of Muskegon
Non-Major Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - CONTINUED

Year Ended December 31, 2004

	Tree Replacement Fund			Enterprise Community Fund			L. C. Walker Arena Fund		
	Amended Budget	Actual	Variance-Positive (Negative)	Amended Budget	Actual	Variance-Positive (Negative)	Amended Budget	Actual	Variance-Positive (Negative)
Revenues									
Federal grants	\$ 4,000	\$ 4,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	100	100	-	-	-	-	713,000	711,064	(1,936)
Interest income	100	139	39	-	-	-	2,300	1,493	(807)
Other	-	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	56,000	56,000	-
Miscellaneous	-	-	-	-	-	-	6,000	6,103	103
Total revenues	4,200	4,239	39	-	-	-	777,300	774,660	(2,640)
Expenditures									
Current									
Public safety	-	-	-	-	-	-	-	-	-
Other governmental functions	5,000	4,380	620	-	-	-	980,000	977,302	2,698
Capital outlay	-	-	-	-	-	-	250,000	248,295	1,705
Total expenditures	5,000	4,380	620	-	-	-	1,230,000	1,225,597	4,403
Excess (deficiency) of revenues over expenditures	(800)	(141)	659	-	-	-	(452,700)	(450,937)	1,763
Other financing sources (uses)									
Transfers in	-	-	-	-	-	-	449,000	451,663	2,663
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	449,000	451,663	2,663
Net change in fund balances	(800)	(141)	659	-	-	-	(3,700)	726	4,426
Fund balances at beginning of year	12,434	12,434	-	-	-	-	37,589	37,589	-
Fund balances at end of year	\$ 11,634	\$ 12,293	\$ 659	\$ -	\$ -	\$ -	\$ 33,889	\$ 38,315	\$ 4,426

City of Muskegon
Non-Major Capital Projects Funds

COMBINING BALANCE SHEET

December 31, 2004

	Sidewalk Replacement	Michcon Remediation	Public Improvement	Community Development Block Grant	State Grants	Lakeshore Trail	HOME Rehabilitation	EDC Revolving Loan	EC Micro Loan	Total Non-Major Capital Projects Funds
ASSETS										
Cash and cash equivalents	\$ 829,090	\$ 189,126	\$ 797,984	\$ -	\$ -	\$ -	\$ -	\$ 28,764	\$ -	\$ 1,844,964
Receivables (net of allowance for uncollectibles)	-	-	130,900	612,014	12,480	-	-	14,482	3,616	773,492
Accounts and loans	1,128,895	-	-	-	-	-	-	-	-	1,128,895
Special assessments	-	-	-	222,476	295,351	-	329,145	-	15,613	862,585
Due from other governmental units	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 1,957,985	\$ 189,126	\$ 928,884	\$ 834,490	\$ 307,831	\$ -	\$ 329,145	\$ 43,246	\$ 19,229	\$ 4,609,936
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable	\$ 400	\$ -	\$ 1,263	\$ 19,355	\$ 15,914	\$ -	\$ 2,090	\$ -	\$ -	\$ 39,022
Accrued payroll	-	-	-	5,645	-	-	1,350	-	-	6,995
Due to other funds	-	-	-	478,104	290,310	-	32,940	-	7,723	809,077
Deferred revenue	933,282	-	1,000	331,386	-	-	292,765	-	8,742	1,567,175
Total liabilities	933,682	-	2,263	834,490	306,224	-	329,145	-	16,465	2,422,269
Fund balances										
Unreserved	-	-	476,113	-	-	-	-	-	-	476,113
Designated for approved projects	1,024,303	189,126	450,508	-	1,607	-	-	43,246	2,764	1,711,554
Undesignated	-	-	-	-	-	-	-	-	-	-
Total fund balances	1,024,303	189,126	926,621	-	1,607	-	-	43,246	2,764	2,187,667
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,957,985	\$ 189,126	\$ 928,884	\$ 834,490	\$ 307,831	\$ -	\$ 329,145	\$ 43,246	\$ 19,229	\$ 4,609,936

City of Muskegon
Non-Major Capital Projects Funds

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES**

Year Ended December 31, 2004

	Sidewalk Replacement	Michcon Remediation	Public Improvement	Community Development Block Grant	State Grants	Lakeshore Trail	HOME Rehabilitation	EDC Revolving Loan	EC Micro Loan	Total Non-Major Capital Projects Funds
Revenues										
Special assessments	\$ 321,050	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 321,050
Federal grants	-	-	-	1,255,440	262,848	-	587,523	-	21,912	2,127,723
State grants	-	-	-	-	1,015,519	-	-	-	-	1,015,519
Interest income	60,546	2,373	10,499	2,106	-	4,710	-	7,264	43	87,541
Other	-	-	303,011	-	29,980	-	-	-	-	332,991
Contributions	-	-	44,012	67,584	-	-	-	35,705	-	147,301
Miscellaneous	-	-	-	-	-	-	-	-	-	-
Total revenues	381,596	2,373	357,522	1,325,130	1,308,347	4,710	587,523	42,969	21,955	4,032,125
Expenditures										
Capital outlay	-	-	-	279,169	-	-	54,247	-	-	333,416
Personnel services	-	-	-	198,475	-	-	-	-	-	198,475
Operating supplies	-	-	-	893,851	1,656,686	-	710,013	474	21,970	5,348,038
Contractual services and other	174,119	390	1,890,535	-	-	-	-	-	-	-
Debt service	368,718	-	150,000	-	-	-	-	-	-	518,718
Principal	85,860	-	-	-	-	-	-	-	-	85,860
Interest	-	-	-	-	-	-	-	-	-	-
Total expenditures	628,697	390	2,040,535	1,371,495	1,656,686	-	764,260	474	21,970	6,484,507
Excess (deficiency) of revenues over expenditures	(247,101)	1,983	(1,683,013)	(46,365)	(348,339)	4,710	(176,737)	42,495	(15)	(2,452,382)
Other financing sources (uses)										
Transfers in	238,511	-	1,080,000	-	351,229	-	-	-	-	1,669,740
Sale of property	-	-	260,442	46,365	-	-	176,737	-	-	483,544
Transfers out	-	-	(139,240)	-	(2,802)	(286,061)	-	(935,000)	-	(1,363,103)
Total other financing sources (uses)	238,511	-	1,201,202	46,365	348,427	(286,061)	176,737	(935,000)	-	790,181
Net change in fund balances	(8,590)	1,983	(481,811)	-	88	(281,351)	-	(892,505)	(15)	(1,662,201)
Fund balances at beginning of year	1,032,893	187,143	1,408,432	-	1,519	281,351	-	935,751	2,779	3,849,868
Fund balances at end of year	\$ 1,024,303	\$ 189,126	\$ 926,621	\$ -	\$ 1,607	\$ -	\$ -	\$ 43,246	\$ 2,764	\$ 2,187,667

DESCRIPTION OF INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department to other departments of a governmental unit or to other governments on a cost-reimbursement basis.

A list and description of internal service funds maintained by the City follows:

Engineering Services - to account for salary, benefit and other costs related to the provision of internal engineering services for City projects; to account for charges to the user funds and projects to cover those expenses.

Equipment - to account for the purchase, operation, maintenance and depreciation of all City-owned vehicles and equipment; to account for charges to the user funds and departments to cover those expenses.

General Insurance - to account for the payment of claims and benefits, excess liability premiums and operating expenses; to account for charges to other funds and departments to cover the expenses.

Public Service Building - to account for the operation, maintenance and depreciation of the City's Public Service Building; to account for charges to the user funds and departments to cover these expenses.

**City of Muskegon
Internal Service Funds**

COMBINING STATEMENT OF FUND NET ASSETS

December 31, 2004

	Engineering Services	Equipment	General Insurance	Public Service Building	Total Internal Service Funds
ASSETS					
Current assets					
Cash and cash equivalents	\$ 74,410	\$ 586,818	\$ 654,597	\$ 80,971	\$ 1,396,796
Accounts receivable	2,653	23	307,307	-	309,983
Due from other funds	-	909,725	-	-	909,725
Inventories	-	18,270	-	-	18,270
Prepaid items	1,153	25,881	142,712	1,434	171,180
Total current assets	78,216	1,540,717	1,104,616	82,405	2,805,954
Noncurrent assets					
Land, construction in progress and other assets not being depreciated	-	-	-	65,000	65,000
Other capital assets, net of depreciation	332	1,837,709	-	953,805	2,791,846
Total noncurrent assets	332	1,837,709	-	1,018,805	2,856,846
TOTAL ASSETS	\$ 78,548	\$ 3,378,426	\$ 1,104,616	\$ 1,101,210	\$ 5,662,800
Investment income					
Current liabilities					
Accounts payable	\$ 798	\$ 114,657	\$ 203,456	\$ 20,068	\$ 338,979
Accrued payroll	9,129	13,345	836	6,718	30,028
Compensated absences payable	27,983	52,259	2,286	23,420	105,948
Total current liabilities	37,910	180,261	206,578	50,206	474,955
Net assets					
Invested in capital assets	332	1,837,709	-	1,018,805	2,856,846
Unrestricted	40,306	1,360,456	898,038	32,199	2,330,999
Total net assets	40,638	3,198,165	898,038	1,051,004	5,187,845
TOTAL LIABILITIES AND NET ASSETS	\$ 78,548	\$ 3,378,426	\$ 1,104,616	\$ 1,101,210	\$ 5,662,800

City of Muskegon
Internal Service Funds

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS**

Year Ended December 31, 2004

	Engineering Services	Equipment	General Insurance	Public Service Building	Total Internal Service Funds
Operating revenues					
Charges to other funds	\$ 487,233	\$ 2,393,337	\$ 2,565,881	\$ 569,872	\$ 6,016,323
Other revenues	25,332	41,740	137,914	177	205,163
Total operating revenues	512,565	2,435,077	2,703,795	570,049	6,221,486
Operating expenses					
Operating and administrative	520,501	1,475,674	30,330	509,918	2,536,423
Insurance premiums and claims	-	-	3,576,019	-	3,576,019
Depreciation and amortization	1,434	514,520	-	70,280	586,234
Total operating expenses	521,935	1,990,194	3,606,349	580,198	6,698,676
Operating income (loss)	(9,370)	444,883	(902,554)	(10,149)	(477,190)
Nonoperating revenues (expenses)					
Investment income	1,018	13,379	9,240	991	24,628
Gain (loss) on sale of capital assets	-	(4,906)	-	-	(4,906)
Investment income	1,018	8,473	9,240	991	19,722
Income (loss) before transfers	(8,352)	453,356	(893,314)	(9,158)	(457,468)
Transfers					
Transfers in	-	-	1,240,959	-	1,240,959
Transfers out	-	-	(251,663)	-	(251,663)
Total transfers	-	-	989,296	-	989,296
Change in net assets	(8,352)	453,356	95,982	(9,158)	531,828
Net assets at beginning of year	48,990	2,744,809	802,056	1,060,162	4,656,017
Net assets at end of year	\$ 40,638	\$ 3,198,165	\$ 898,038	\$ 1,051,004	\$ 5,187,845

City of Muskegon
Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2004

	Engineering Services	Equipment	General Insurance	Public Service Building	Total Internal Service Funds
Cash flows from operating activities					
Receipts from customers	\$ 26,148	\$ 45,234	\$ 137,914	\$ 177	\$ 209,473
Receipts for internal services provided	487,233	2,393,337	2,565,881	569,872	6,016,323
Payments to suppliers	(134,325)	(806,915)	(3,919,140)	(272,029)	(5,132,409)
Payments to employees	(315,958)	(383,079)	(26,503)	(188,664)	(914,204)
Payments to internal service funds	(76,575)	(234,803)	(4,968)	(43,208)	(359,554)
Net cash provided by (used for) operating activities	(13,477)	1,013,774	(1,246,816)	66,148	(180,371)
Cash flows from noncapital financing activities					
Interfund borrowing	-	(909,725)	-	-	(909,725)
Transfers in	-	-	1,240,959	-	1,240,959
Transfers out	-	-	(251,663)	-	(251,663)
Net cash provided by (used for) noncapital financing activities	-	(909,725)	989,296	-	79,571
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	-	(467,482)	-	(110,432)	(577,914)
Cash flows from investing activities					
Investment income	1,018	13,379	9,240	991	24,628
Net decrease in cash and cash equivalents	(12,459)	(350,054)	(248,280)	(43,293)	(654,086)
Cash and cash equivalents at beginning of year	86,869	936,872	902,877	124,264	2,050,882
Cash and cash equivalents at end of year	\$ 74,410	\$ 586,818	\$ 654,597	\$ 80,971	\$ 1,396,796
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	\$ (9,370)	\$ 444,883	\$ (902,554)	\$ (10,149)	\$ (477,190)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation and amortization	1,434	514,520	-	70,280	586,234
(Increase) decrease in					
Accounts receivable	816	3,494	(187,060)	-	(182,750)
Inventories	-	(7,866)	-	-	(7,866)
Prepaid items	38	(752)	(142,712)	77	(143,349)
Increase (decrease) in					
Accounts payable	(6,466)	44,631	(15,019)	2,905	26,051
Accrued payroll	1,997	2,673	165	1,571	6,406
Compensated absences payable	(1,926)	12,191	364	1,464	12,093
Net cash provided by (used for) operating activities	\$ (13,477)	\$ 1,013,774	\$ (1,246,816)	\$ 66,148	\$ (180,371)

DESCRIPTION OF FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by a government in a trustee capacity for individuals, private organizations, other governments or other funds.

A list and description of the fiduciary funds maintained by the City follows:

PENSION TRUST FUNDS are used to account for public employee retirement systems.

General Employees Retirement System - to account for the funding of retirement for the general employees of the City by all funds and departments, for establishing and maintaining required reserves and the payment of retirement benefits to participants.

Policemen and Firemen Retirement System - to account for the funding of public safety employees' retirement by the general fund, for establishing and maintaining required reserves and the payment of retirement benefits to participants.

Retiree Healthcare – to account for the funding of retirement healthcare benefits for employees and retirees of the city in accordance with the provisions of P.A. 149 of 1999.

AGENCY FUNDS are used to account for assets held as an agent for another organization or individual.

Collector - to account for the collections and disbursement of funds to other entities and individuals and to account for payroll withholdings and their remittance to the appropriate governmental agencies.

Current Tax - to account for levy, collection and payment of taxes levied for the general and other funds of the City, county and public school districts.

Rehab Loan Escrow - to account for deposits made by housing rehabilitation program participants and their expenditures for the intended purposes.

City of Muskegon
Pension Trust Funds

COMBINING STATEMENT OF PLAN NET ASSETS

December 31, 2004

	General Employees Retirement System		Policemen and Firemen Retirement System			Retiree Healthcare	Total Pension Trust Funds
	Pension	Healthcare	Total	Pension	Healthcare	Total	
ASSETS							
Cash and cash equivalents	\$ 530,763	\$ -	\$ 530,763	\$ 521,335	\$ -	\$ 521,335	\$ 1,162,153
Investments	31,894,975	3,548,924	35,443,899	44,985,710	1,712,270	46,697,980	86,964,885
TOTAL ASSETS	\$ 32,425,738	\$ 3,548,924	\$ 35,974,662	\$ 45,507,045	\$ 1,712,270	\$ 47,219,315	\$ 88,127,038
LIABILITIES AND NET ASSETS							
Liabilities							
Accounts payable	\$ 51	\$ -	\$ 51	\$ 225	\$ -	\$ 225	\$ 276
Net assets							
Held in trust for benefits	32,425,687	3,548,924	35,974,611	45,506,820	1,712,270	47,219,090	88,126,762
TOTAL LIABILITIES AND NET ASSETS	\$ 32,425,738	\$ 3,548,924	\$ 35,974,662	\$ 45,507,045	\$ 1,712,270	\$ 47,219,315	\$ 88,127,038

City of Muskegon
Pension Trust Funds

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended December 31, 2004

	General Employees Retirement System			Policemen and Firemen Retirement System			Total	
	Pension	Healthcare	Total	Pension	Healthcare	Total	Retiree Healthcare	Pension Trust Funds
Additions								
Contributions								
Member	\$ 320,651	\$ -	\$ 320,651	\$ 396,373	\$ -	\$ 396,373	\$ -	\$ 717,024
City	382,193	-	382,193	1,035,172	-	1,035,172	967,300	2,384,665
Total contributions	702,844	-	702,844	1,431,545	-	1,431,545	967,300	3,101,689
Net investment income	6,528	-	6,528	5,511	-	5,511	885	12,924
Interest and dividends								
Net increase in fair value of investments	3,102,449	308,989	3,411,438	4,481,445	154,362	4,635,807	404,985	8,452,230
Total additions	3,811,821	308,989	4,120,810	5,918,501	154,362	6,072,863	1,373,170	11,566,843
Deductions								
Benefit payments	1,457,022	-	1,457,022	3,033,521	-	3,033,521	-	4,490,543
Refunds of contributions	148,919	-	148,919	129,763	-	129,763	-	278,682
Administrative expenses	99,687	-	99,687	127,100	-	127,100	2,787	229,574
Transfers out	-	564,944	564,944	-	676,015	676,015	-	1,240,959
Total deductions	1,705,628	564,944	2,270,572	3,290,384	676,015	3,966,399	2,787	6,239,758
Intrafund transfers in (out)	(212,814)	212,814	-	(99,611)	99,611	-	-	-
Change in net assets	1,893,379	(43,141)	1,850,238	2,528,506	(422,042)	2,106,464	1,370,383	5,327,085
Net assets at beginning of year	30,532,308	3,592,065	34,124,373	42,978,314	2,134,312	45,112,626	3,562,678	82,799,677
Net assets at end of year	\$ 32,425,687	\$ 3,548,924	\$ 35,974,611	\$ 45,506,820	\$ 1,712,270	\$ 47,219,090	\$ 4,933,061	\$ 88,126,762

**City of Muskegon
Agency Funds**

COMBINING BALANCE SHEET

December 31, 2004

	Collector	Current Tax	Rehab Loan Escrow	Total Agency Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 787,182	\$ 5,003,661	\$ -	\$ 5,790,843
Receivables				
Accounts	900	-	4,586	5,486
Property taxes	-	18,997,331	-	18,997,331
TOTAL ASSETS	\$ 788,082	\$ 24,000,992	\$ 4,586	\$ 24,793,660
<u>LIABILITIES</u>				
Accounts payable	\$ 11,222	\$ -	\$ -	\$ 11,222
Due to other funds	-	1,321,441	4,586	1,326,027
Due to other governmental units	434	22,672,047	-	22,672,481
Other liabilities	776,426	7,504	-	783,930
TOTAL LIABILITIES	\$ 788,082	\$ 24,000,992	\$ 4,586	\$ 24,793,660

City of Muskegon
Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Year Ended December 31, 2004

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
<u>COLLECTOR FUND</u>				
ASSETS				
Cash and cash equivalents	\$ 626,786	\$ 12,566,145	\$ 12,405,749	\$ 787,182
Accounts receivable	-	45,452	44,552	900
Due from other governmental units	-	151,264	151,264	-
TOTAL ASSETS	\$ 626,786	\$ 12,762,861	\$ 12,601,565	\$ 788,082
LIABILITIES				
Accounts payable	\$ 2,170	\$ 5,254,968	\$ 5,245,916	\$ 11,222
Due to other governmental units	55,432	-	54,998	434
Other liabilities	569,184	5,746,391	5,539,149	776,426
TOTAL LIABILITIES	\$ 626,786	\$ 11,001,359	\$ 10,840,063	\$ 788,082
<u>CURRENT TAX FUND</u>				
ASSETS				
Cash and cash equivalents	\$ 3,424,359	\$ 30,667,114	\$ 29,087,812	\$ 5,003,661
Property taxes receivable	19,401,411	22,675,429	23,079,509	18,997,331
TOTAL ASSETS	\$ 22,825,770	\$ 53,342,543	\$ 52,167,321	\$ 24,000,992
LIABILITIES				
Due to other funds	\$ 1,036,348	\$ 6,983,486	\$ 6,698,393	\$ 1,321,441
Due to component units	-	519,575	519,575	-
Due to other governmental units	21,782,052	22,675,429	21,785,434	22,672,047
Other liabilities	7,370	84,544	84,410	7,504
TOTAL LIABILITIES	\$ 22,825,770	\$ 30,263,034	\$ 29,087,812	\$ 24,000,992
<u>REHAB LOAN ESCROW</u>				
ASSETS				
Cash and cash equivalents	\$ -	\$ 10,746	\$ 10,746	\$ -
Accounts receivable	4,221	18,939	18,574	4,586
TOTAL ASSETS	\$ 4,221	\$ 29,685	\$ 29,320	\$ 4,586
LIABILITIES				
Accounts payable	\$ -	\$ 18,574	\$ 18,574	\$ -
Due to other funds	4,221	11,111	10,746	4,586
TOTAL LIABILITIES	\$ 4,221	\$ 29,685	\$ 29,320	\$ 4,586
<u>ALL AGENCY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 4,051,145	\$ 43,244,005	\$ 41,504,307	\$ 5,790,843
Receivables				
Accounts	4,221	64,391	63,126	5,486
Property taxes	19,401,411	22,675,429	23,079,509	18,997,331
Due from other governmental units	-	151,264	151,264	-
TOTAL ASSETS	\$ 23,456,777	\$ 66,135,089	\$ 64,798,206	\$ 24,793,660
LIABILITIES				
Accounts payable	\$ 2,170	\$ 5,273,542	\$ 5,264,490	\$ 11,222
Due to other funds	1,040,569	6,994,597	6,709,139	1,326,027
Due to component units	-	519,575	519,575	-
Due to other governmental units	21,837,484	22,675,429	21,840,432	22,672,481
Other liabilities	576,554	5,830,935	5,623,559	783,930
TOTAL LIABILITIES	\$ 23,456,777	\$ 41,294,078	\$ 39,957,195	\$ 24,793,660

DESCRIPTION OF DISCRETELY PRESENTED COMPONENT UNITS

A list and description of the discretely presented component units maintained by the City are as follows:

Downtown Development Authority - to account for the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown.

Local Development Finance Authority – to account for the collection of tax increment revenues and the construction of public facilities. Three separate local development finance authority districts have been created:

Local Development Finance Authority I – to promote and facilitate economic growth in the Port City Industrial Park.

Local Development Finance Authority II – to promote and facilitate economic growth in the Medendorp Industrial Park.

Local Development Finance Authority III – to promote and facilitate economic growth in the SmartZone Hi-Tech Park.

Tax Increment Finance Authority - to account for the collection of tax increment revenues, the issuance and repayment of debt to promote and facilitate economic growth in a sub section of the downtown.

City of Muskegon
Discretely Presented Component Units

BALANCE SHEET

December 31, 2004

	Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Discretely Presented Component Units
<u>ASSETS</u>						
Cash and cash equivalents	\$ 301	\$ 21,795	\$ 465,160	\$ 435,306	\$ 3,141	\$ 925,703
Property taxes receivable	-	-	11,620	638,521	59,706	709,847
TOTAL ASSETS	\$ 301	\$ 21,795	\$ 476,780	\$ 1,073,827	\$ 62,847	\$ 1,635,550
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities						
Deferred revenue	\$ -	\$ -	\$ 11,620	\$ 638,521	\$ 59,706	\$ 709,847
Fund balances						
Unreserved	301	21,795	465,160	435,306	3,141	925,703
TOTAL LIABILITIES AND FUND BALANCES	\$ 301	\$ 21,795	\$ 476,780	\$ 1,073,827	\$ 62,847	\$ 1,635,550

**City of Muskegon
Discretely Presented Component Units**

**RECONCILIATION OF TOTAL DISCRETELY PRESENTED COMPONENT UNIT FUND BALANCES
TO NET ASSETS OF DISCRETELY PRESENTED COMPONENT UNIT ACTIVITIES**

December 31, 2004

Total discretely presented component unit fund balances	\$	925,703
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Amounts reported for discretely presented component unit activities in the statement of net assets are different because:

Capital assets used in discretely presented component unit activities are not financial resources and therefore are not reported as assets in the discretely presented component unit funds.

Capital assets	\$ 4,198,258	
Accumulated depreciation	<u>(187,035)</u>	4,011,223

Other assets used in discretely presented component unit activities are not financial resources and therefore are not reported in the discretely presented component unit funds.

Bond issuance costs		129,621
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the discretely presented component unit funds.

Bonds payable	(9,215,000)	
Bond discount	8,018	
Accrued interest on the bonds	<u>(48,400)</u>	<u>(9,255,382)</u>

Net assets of discretely presented component unit activities	\$	<u><u>(4,188,835)</u></u>
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City of Muskegon
Discretely Presented Component Units

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Total Discretely Presented Component Units
Revenues						
Property taxes	\$ -	\$ -	\$ 10,585	\$ 686,302	\$ 57,959	\$ 754,846
Interest	-	1,381	16,199	5,182	333	23,095
Total revenues	-	1,381	26,784	691,484	58,292	777,941
Expenditures						
Current						
Economic development	-	399	-	115,084	56,000	171,483
Debt services						
Principal	-	-	-	180,000	-	180,000
Interest and fiscal charges	-	-	205,498	160,743	-	366,241
Total expenditures	-	399	205,498	455,827	56,000	717,724
Net change in fund balances	-	982	(178,714)	235,657	2,292	60,217
Fund balances at beginning of year	301	20,813	643,874	199,649	849	865,486
Fund balances at end of year	\$ 301	\$ 21,795	\$ 465,160	\$ 435,306	\$ 3,141	\$ 925,703

**City of Muskegon
Discretely Presented Component Units**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF DISCRETELY PRESENTED COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES**

December 31, 2004

Net change in fund balances - total discretely presented component unit funds	\$	60,217
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Amounts reported for discretely presented component unit activities in the statement of activities are different because:

Discretely presented component unit funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Current year depreciation		(172,647)
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The issuance of long-term debt provides current financial resources to discretely presented component unit funds, while the repayment of the principal of long-term debt consumes the current financial resources of discretely presented component unit funds.

Neither transaction, however, has any effect on net assets. Also, discretely presented component units report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Amortization of discount and issuance costs

Principal payments

(6,752)

180,000

173,248

Change in net assets of discretely presented component unit activities	\$	60,818
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SCHEDULE OF INDEBTEDNESS

SCHEDULE OF INDEBTEDNESS

December 31, 2004

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable
					2003	2004	
Business-Type Activities Bonds and Loans Payable:							
Water supply system bonds	10/1/1993	\$ 5,465,000	0.00%	05/01/05	\$ -	\$ -	40,500
(\$14,796 unamortized discount)			0.00%	05/01/06	-	-	40,500
			0.00%	05/01/07	-	-	40,500
			0.00%	05/01/08	-	-	40,500
			0.00%	05/01/09	-	-	40,500
			0.00%	05/01/10	-	-	40,500
			0.00%	05/01/11	-	-	40,500
			4.50%	05/01/12	450,000	450,000	30,375
			4.50%	05/01/13	450,000	450,000	10,121
					900,000	900,000	323,996
Water supply system bonds	3/2/1999	\$ 9,575,000	3.85%	05/01/04	420,000	-	-
(\$68,920 unamortized discount)			3.95%	05/01/05	435,000	435,000	344,704
			4.05%	05/01/06	455,000	455,000	326,899
			4.05%	05/01/07	470,000	470,000	308,168
			4.05%	05/01/08	490,000	490,000	288,728
			4.10%	05/01/09	510,000	510,000	268,350
			4.20%	05/01/10	535,000	535,000	246,660
			4.30%	05/01/11	555,000	555,000	223,493
			4.35%	05/01/12	130,000	130,000	208,733
			4.40%	05/01/13	155,000	155,000	202,495
			4.50%	05/01/14	635,000	635,000	184,798
			4.55%	05/01/15	665,000	665,000	155,381
			4.60%	05/01/16	695,000	695,000	124,268
			4.65%	05/01/17	730,000	730,000	91,310
			4.75%	05/01/18	765,000	765,000	56,169
			4.75%	05/01/19	800,000	800,000	19,000
					8,445,000	8,025,000	3,049,156
Drinking Water State Revolving Fund (DWSRF)	3/2/2004	\$ 13,900,000	2.13%	10/01/05	-	-	180,280
			2.13%	10/01/06	-	565,000	178,279
			2.13%	10/01/07	-	575,000	166,237
			2.13%	10/01/08	-	590,000	153,965
			2.13%	10/01/09	-	600,000	141,393
			2.13%	10/01/10	-	615,000	128,589
			2.13%	10/01/11	-	630,000	115,468
			2.13%	10/01/12	-	640,000	102,045
			2.13%	10/01/13	-	655,000	88,391
			2.13%	10/01/14	-	670,000	74,420
			2.13%	10/01/15	-	685,000	60,129
			2.13%	10/01/16	-	695,000	45,537
			2.13%	10/01/17	-	710,000	30,715
			2.13%	10/01/18	-	725,000	15,575
			2.13%	10/01/19	-	128,766	2,280
					-	8,483,766	1,483,304
Contractual obligation for	11/6/2002	\$ 6,990,000	2.00%	07/01/04	122,705	-	-
County wastewater debt retirement - refunding bonds *			2.25%	07/01/05	116,862	116,862	187,564
			5.00%	07/01/06	1,244,580	1,244,580	184,934
			5.00%	07/01/07	1,232,894	1,232,894	122,705
			5.00%	07/01/08	1,221,208	1,221,208	61,060
					3,938,249	3,815,544	556,263
Contractual obligation for	5/1/1996	\$ 8,034,263	5.10%	07/01/04	984,562	-	-
County wastewater debt retirement *			5.70%	07/01/05	964,112	964,112	27,475
					1,948,674	964,112	27,475
TOTAL BUSINESS-TYPE ACTIVITIES BONDS AND LOANS PAYABLE					\$ 15,231,923	\$ 22,188,422	\$ 5,440,194
Governmental Activities Bonds and Loans Payable:							
Building authority limited tax bonds	1/1/1996	\$ 1,545,000					
of 1996 (city hall renovations)			4.30%	12/01/04	\$ 205,000	\$ -	\$ -
					205,000	-	-
Special assessment improvement bonds	1/1/1996	\$ 1,155,000	4.30%	12/01/04	65,000	-	-
of 1996 (sidewalks)			4.40%	12/01/05	25,000	25,000	1,100
					90,000	25,000	1,100
Special assessment improvement bonds	10/1/1998	\$ 1,495,000	3.90%	04/01/04	165,000	-	-
of 1998 (sidewalks)			3.95%	04/01/05	165,000	165,000	21,259
			4.00%	04/01/06	165,000	165,000	14,700
			4.00%	04/01/07	130,000	130,000	8,800
			4.00%	04/01/08	95,000	95,000	4,300
			4.00%	04/01/09	60,000	60,000	1,200
					780,000	615,000	50,259

* Note: 58.88% of this debt is guaranteed and paid by an industrial user.

SCHEDULE OF INDEBTEDNESS - CONTINUED

December 31, 2004

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable
					2003	2004	
Governmental Activities Bonds and Loans Payable--continued:							
Special assessment improvement bonds of 2000 (sidewalks)	12/1/2000	\$ 825,000	4.55%	04/01/04	\$ 90,000	\$ -	\$ -
			4.60%	04/01/05	85,000	85,000	21,883
			4.65%	04/01/06	85,000	85,000	17,951
			4.70%	04/01/07	90,000	90,000	13,860
			4.80%	04/01/08	85,000	85,000	9,705
			4.90%	04/01/09	85,000	85,000	5,583
			5.00%	04/01/10	70,000	70,000	1,746
					590,000	500,000	70,728
Capital improvement bonds of 2003 (sidewalks)	3/1/2003	\$ 1,575,000	2.00%	06/01/04	105,000	-	-
			2.00%	06/01/05	105,000	105,000	47,624
			2.00%	06/01/06	105,000	105,000	45,524
			2.38%	06/01/07	110,000	110,000	43,168
			2.88%	06/01/08	110,000	110,000	40,280
			3.13%	06/01/09	115,000	115,000	36,902
			3.50%	06/01/10	120,000	120,000	33,005
			3.50%	06/01/11	120,000	120,000	28,805
			3.70%	06/01/12	125,000	125,000	24,393
			3.80%	06/01/13	130,000	130,000	19,610
			3.90%	06/01/14	135,000	135,000	14,508
			4.00%	06/01/15	145,000	145,000	8,975
			4.05%	06/01/16	150,000	150,000	3,038
					1,575,000	1,470,000	345,829
State of Michigan urban land assembly loan	12/15/1999	\$ 1,276,900	0.00%	10/31/04	150,000	-	-
			0.00%	10/31/05	150,000	150,000	-
			0.00%	10/31/06	150,000	150,000	-
			0.00%	10/31/07	200,000	200,000	-
			0.00%	10/31/08	200,000	200,000	-
			0.00%	10/31/09	276,900	276,900	-
					1,126,900	976,900	-
Michigan transportation fund refunding bonds (\$4,593 unamortized premium)	10/1/2002	\$ 2,245,000	2.00%	06/01/04	350,000	-	-
			2.25%	06/01/05	370,000	370,000	37,475
			2.50%	06/01/06	385,000	385,000	28,500
			2.88%	06/01/07	400,000	400,000	17,937
			3.13%	06/01/08	390,000	390,000	6,093
					1,895,000	1,545,000	90,005
Michigan transportation fund bonds	11/1/1997	\$ 1,950,000	4.10%	12/01/04	205,000	-	-
			4.15%	12/01/05	215,000	215,000	28,781
			4.20%	12/01/06	230,000	230,000	19,860
			4.25%	12/01/07	240,000	240,000	10,200
					890,000	685,000	58,841
TOTAL GOVERNMENTAL ACTIVITIES BONDS AND LOANS PAYABLE					\$ 7,151,900	\$ 5,816,900	\$ 616,762
TOTAL PRIMARY GOVERNMENT BONDS AND LOANS PAYABLE					\$ 22,383,823	\$ 28,005,322	\$ 6,056,956

SCHEDULE OF INDEBTEDNESS - CONTINUED

December 31, 2004

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable
					2003	2004	
Discretely Presented Component Unit Bonds and Loans Payable:							
Downtown Development Authority	8/10/1989	\$ 1,000,000	0.00%	08/30/19	\$ 1,000,000	\$ 1,000,000	\$ -
promissory note to Muskegon County					1,000,000	1,000,000	-
Downtown Development Authority	9/1/2001	\$ 4,005,000	4.00%	06/01/04	180,000	-	-
refunding bonds			4.00%	06/01/05	185,000	185,000	153,192
			4.00%	06/01/06	200,000	200,000	145,492
			4.00%	06/01/07	200,000	200,000	137,492
			4.00%	06/01/08	210,000	210,000	129,292
			4.20%	06/01/09	220,000	220,000	120,472
			4.25%	06/01/10	230,000	230,000	110,964
			4.35%	06/01/11	240,000	240,000	100,857
			4.45%	06/01/12	245,000	245,000	90,187
			4.55%	06/01/13	260,000	260,000	78,821
			4.65%	06/01/14	270,000	270,000	66,628
			4.75%	06/01/15	280,000	280,000	53,700
			4.85%	06/01/16	300,000	300,000	39,775
			5.00%	06/01/17	315,000	315,000	24,625
			5.00%	06/01/18	335,000	335,000	8,375
					3,670,000	3,490,000	1,259,872
Local Development Finance Authority	11/1/2002	\$ 4,725,000	0.00%	11/01/04	-	-	-
Smartzone Bonds			0.00%	11/01/05	-	-	205,147
(\$8,018 unamortized discount)			0.00%	11/01/06	-	-	205,147
			3.25%	11/01/07	80,000	80,000	205,147
			3.50%	11/01/08	80,000	80,000	202,547
			3.63%	11/01/09	80,000	80,000	199,747
			3.88%	11/01/10	80,000	80,000	196,847
			3.88%	11/01/11	80,000	80,000	193,747
			4.00%	11/01/12	180,000	180,000	190,647
			3.90%	11/01/13	240,000	240,000	183,447
			4.05%	11/01/14	305,000	305,000	174,087
			4.05%	11/01/15	325,000	325,000	161,736
			4.15%	11/01/16	340,000	340,000	148,572
			4.25%	11/01/17	355,000	355,000	134,462
			4.35%	11/01/18	375,000	375,000	119,376
			4.45%	11/01/19	395,000	395,000	103,062
			4.60%	11/01/20	400,000	400,000	85,486
			4.60%	11/01/21	255,000	255,000	67,086
			4.60%	11/01/22	265,000	265,000	55,356
			4.85%	11/01/23	280,000	280,000	43,166
			4.85%	11/01/24	295,000	295,000	29,586
			4.85%	11/01/25	315,000	315,000	15,278
					4,725,000	4,725,000	2,919,676
TOTAL DISCRETELY PRESENTED COMPONENT UNIT BONDS AND LOANS PAYABLE					\$ 9,395,000	\$ 9,215,000	\$ 4,179,548
TOTAL REPORTING ENTITY BONDS AND LOANS PAYABLE					\$ 31,778,823	\$ 37,220,322	\$ 10,236,504

STATISTICAL SECTION
(UNAUDITED)

City of Muskegon

GENERAL FUND REVENUES AND OTHER FINANCING SOURCES BY SOURCE

Last Ten Fiscal Years

Year	Local Taxes (a)	% of Total	Licenses & Permits	% of Total	Intergovernmental	% of Total	Charges for Service	% of Total	Interest and Rent	% of Total	Fines and Fees	% of Total	Transfers In	% of Total	Other	% of Total	Total (b)	% Change
1995	\$ 9,455,492	56.8%	\$ 872,478	5.2%	\$ 4,068,757	24.5%	\$ 240,506	1.4%	\$ 388,592	2.3%	\$ 213,384	1.3%	\$ 169,298	1.0%	\$ 1,224,672	7.4%	\$ 16,633,179	-
1996	9,218,272	52.2%	829,441	4.7%	5,171,357	29.3%	1,004,833	5.7%	453,612	2.6%	266,374	1.5%	205,229	1.2%	517,096	2.9%	17,666,214	6.2%
1997	11,323,885	55.6%	845,519	4.2%	5,650,079	27.7%	1,432,452	7.0%	512,475	2.5%	246,943	1.2%	149,789	0.7%	200,946	1.0%	20,362,088	15.3%
1998	11,855,295	54.8%	850,890	3.9%	5,507,100	25.4%	1,620,924	7.5%	602,811	2.8%	434,478	2.0%	360,349	1.7%	412,008	1.9%	21,643,855	6.3%
1999	11,961,023	55.8%	1,015,777	4.7%	5,286,569	24.6%	1,911,915	8.9%	465,749	2.2%	277,369	1.3%	177,408	0.8%	355,871	1.7%	21,451,681	-0.9%
2000	12,831,435	54.2%	1,129,001	4.8%	6,008,823	25.4%	2,093,312	8.8%	599,409	2.5%	338,677	1.4%	207,636	0.9%	477,223	2.0%	23,685,516	10.4%
2001	12,878,483	54.9%	1,014,598	4.3%	6,184,017	26.4%	1,971,996	8.4%	490,863	2.1%	350,557	1.5%	178,457	0.8%	377,640	1.6%	23,446,611	-1.0%
2002	13,465,040	57.0%	1,071,236	4.5%	5,643,611	23.9%	2,091,356	8.9%	332,560	1.4%	393,314	1.7%	180,985	0.8%	439,062	1.9%	23,617,164	0.7%
2003	13,246,744	56.8%	1,108,780	4.8%	5,173,722	22.2%	2,240,866	9.6%	189,485	0.8%	471,682	2.0%	566,282	2.4%	331,195	1.4%	23,328,756	-1.2%
2004	13,767,040	58.8%	1,139,014	4.9%	4,911,633	21.0%	2,138,678	9.1%	160,766	0.7%	622,165	2.7%	301,209	1.3%	361,288	1.5%	23,401,793	0.3%

(a) Includes Industrial and Commercial Facilities Tax revenue.

(b) When comparing "Total Revenues" with "Total Expenditures" as presented in the exhibit entitled "General Fund Expenditures and Other Uses by Function" the difference reflects the use of fund balance (when expenditures are greater than revenues) or addition to fund balance (when revenues are greater than expenditures).

SOURCE: City of Muskegon Finance Department

City of Muskegon

GENERAL FUND EXPENDITURES AND OTHER USES BY FUNCTION

Last Ten Fiscal Years

Year	Legislative	% of Total	General Government	% of Total	Public Safety	% of Total	Public Works	% of Total	Leisure Services	% of Total	Planning & Development	% of Total	Other (a)	% of Total	Total (b)	% Change
1995	\$ 72,641	0.4%	\$ 1,955,314	12.0%	\$ 8,009,675	49.0%	\$ 737,771	4.5%	\$ 1,399,727	8.6%	\$ 992,780	6.1%	\$ 3,169,678	19.4%	\$ 16,337,586	-
1996	80,482	0.4%	2,343,820	13.0%	8,347,026	46.3%	720,714	4.0%	1,744,754	9.7%	1,289,161	7.2%	3,492,202	19.4%	18,018,159	10.3%
1997	109,432	0.5%	2,854,773	14.0%	8,709,644	42.8%	2,587,188	12.7%	2,098,575	10.3%	1,549,156	7.6%	2,449,552	12.0%	20,358,320	13.0%
1998	100,166	0.5%	2,858,746	13.2%	9,463,878	43.7%	2,517,806	11.6%	2,352,626	10.9%	1,668,148	7.7%	2,673,097	12.4%	21,634,467	6.3%
1999	97,495	0.4%	2,906,536	13.2%	10,314,125	46.9%	2,738,257	12.4%	2,329,065	10.6%	1,338,643	6.1%	2,287,760	10.4%	22,011,881	1.7%
2000	108,223	0.5%	3,044,816	13.7%	11,096,769	49.9%	2,668,788	12.0%	2,345,712	10.6%	931,336	4.2%	2,037,013	9.2%	22,232,657	1.0%
2001	113,296	0.5%	3,187,741	13.7%	11,130,536	47.9%	2,678,089	11.5%	2,637,586	11.4%	948,756	4.1%	2,539,974	10.9%	23,235,978	4.5%
2002	131,889	0.6%	3,467,461	14.5%	11,497,673	48.0%	2,680,695	11.2%	2,610,935	10.9%	971,335	4.1%	2,611,548	10.9%	23,971,536	3.2%
2003	103,449	0.4%	3,418,263	14.4%	11,437,516	48.2%	2,731,241	11.5%	2,624,275	11.1%	987,097	4.2%	2,403,493	10.1%	23,705,334	-1.1%
2004	83,235	0.4%	3,320,050	14.2%	12,272,681	52.5%	2,543,512	10.9%	2,259,699	9.7%	797,072	3.4%	2,111,771	9.0%	23,388,020	-1.3%

(a) Includes "Transfers to Other Funds", insurance costs, debt service, major capital improvements, and miscellaneous expenditures.

(b) When comparing "Total Expenditures" with "Total Revenues" as presented in the exhibit entitled "General Fund Revenues and Other Financing Sources by Source" the difference reflects the use of fund balance (when expenditures are greater than revenues) or addition to fund balance (when revenues are greater than expenditures).

SOURCE: City of Muskegon Finance Department

City of Muskegon

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (a)

Last Ten Fiscal Years

Fiscal Year	Real Property			Personal Property			Total Property		
	Assessed Value	Estimated Actual Value		Assessed Value	Estimated Actual Value		Assessed Value	Estimated Actual Value	Assessed to Estimated Value
1995	\$ 398,226,800	\$ 796,453,600	\$	\$ 135,142,506	\$ 270,285,012	\$	\$ 533,369,306	\$ 1,066,738,612	50.0%
1996	420,246,500	840,493,000		154,302,600	308,605,200		574,549,100	1,149,098,200	50.0%
1997	438,157,200	876,314,400		165,327,700	330,655,400		603,484,900	1,206,969,800	50.0%
1998	461,049,700	922,099,400		153,932,700	307,865,400		614,982,400	1,229,964,800	50.0%
1999	496,781,800	993,563,600		179,928,300	359,856,600		676,710,100	1,353,420,200	50.0%
2000	543,897,900	1,087,795,800		180,164,900	360,329,800		724,062,800	1,448,125,600	50.0%
2001	601,420,300	1,202,840,600		211,503,600	423,007,200		812,923,900	1,625,847,800	50.0%
2002	638,624,250	1,277,248,500		187,393,600	374,787,200		826,017,850	1,652,035,700	50.0%
2003	661,692,712	1,323,385,424		177,348,400	354,696,800		839,041,112	1,678,082,224	50.0%
2004	661,233,389	1,322,466,778		168,106,228	336,212,456		829,339,617	1,658,679,234	50.0%

(a) Includes property assessed under the Industrial Facilities Tax (IFT), Commercial Facilities Tax (CFT), Neighborhood Enterprise Zone (NEZ), Commercial Enterprise Zone (CEZ) and Renaissance Zone (REZ) exemption programs.

SOURCE: City of Muskegon Assessor's Office/Muskegon County Equalization Department

City of Muskegon

TEN LARGEST PROPERTY ASSESSMENTS

AGGREGATE TAXABLE VALUES BY OWNER

December 2004

Name of Taxpayer	Taxable Value Real Property	Taxable Value Personal Property	Taxable Value Act 198 & Special Acts	Total Taxable Value	Percent
Consumers Energy Company	\$ 47,315,836	\$ 10,446,800	\$ 11,406,756	\$ 69,169,392	9.56%
Sappi (S.D. Warren Co.)	7,291,501	20,480,500	26,209,700	53,981,701	7.46%
DTE Energy (formerly Michcon)	1,399,770	7,670,400	-	9,070,170	1.25%
Johnson Technology	854,535	5,516,500	1,506,209	7,877,244	1.09%
ADAC Plastics	-	2,477,600	4,250,600	6,728,200	0.93%
Dudley Corporation	1,537,367	2,500	4,783,600	6,323,467	0.87%
Bekaert Steel Wire Corporation	2,264,609	2,184,900	1,588,528	6,038,037	0.83%
Holland Neway International	2,242,876	999,300	2,493,700	5,735,876	0.79%
Brunswick	3,045,610	2,673,400	-	5,719,010	0.79%
ESCO Company	957,906	4,257,600	406,000	5,621,506	0.78%
Total--10 Largest				176,264,603	24.37%
Total--All Other				546,954,113	75.63%
				<u>\$ 723,218,716</u>	<u>100.00%</u>

SOURCE: Muskegon County Equalization Department

City of Muskegon

TEN LARGEST TAXPAYERS

Last Five Fiscal Years

Name of Taxpayer	2000	2001	2002	2003 (a)	2004 (a)
Consumers Energy Company	\$ 3,615,015	\$ 4,010,151	\$ 3,617,363	\$ 3,221,146	\$ 3,351,241
Sappi (S.D. Warren Co.)	2,432,128	2,701,211	2,670,623	2,204,318	2,111,973
DTE Energy (formerly Michcon)	472,834	535,702	415,712	379,603	467,925
Johnson Technology	356,680	314,506	346,895	375,696	366,216
Brunswick	468,885	415,892	429,291	372,587	295,305
Terrace Partners LLC	329,753	345,368	300,515	272,893	284,680
ESCO Company	-	-	-	281,294	278,538
Bekaert Steel Wire Corporation	-	-	-	-	270,540
Lorin Industries	286,459	306,336	345,929	336,627	269,096
Sherman Shopping Center LLC	-	-	-	-	246,859
ADAC Plastics	-	-	302,927	322,449	-
Ango American Clays Corporation	-	833,036	-	-	-
Muskegon Properties Company	348,147	334,728	-	-	-
Holland Newway International	289,930	297,741	281,153	-	-
Cole's Quality Foods	270,315	-	259,390	-	-
	<u>\$ 8,870,146</u>	<u>\$ 10,094,671</u>	<u>\$ 8,969,798</u>	<u>\$ 7,766,613</u>	<u>\$ 7,942,373</u>

(a) Starting in 2003, the 6.0-mill State Education Tax (SET) is collected in the summer by Muskegon County. Figures shown here are for winter taxes only as collected by the City of Muskegon.

SOURCE: City of Muskegon Treasurer's Office

City of Muskegon

TAX RATES PER \$1,000 TAXABLE VALUE FOR CITY AND OVERLAPPING UNITS

Last Ten Fiscal Years

Year	City General	City Special	Debt Service	Total City	State Education Tax	School District	Library District (a)	County Schools (b)	County General (c)	Grand Total
1995	\$ 7.0000	3.1008	\$ -	\$ 10.1008	\$ 6.0000	26.0000	-	5.0885	\$ 6.2248	\$ 53.4141
1996	7.0000	3.0988	-	10.0988	6.0000	26.0000	-	5.0885	6.7136	53.9009
1997	7.0000	3.0937	-	10.0937	6.0000	26.0000	-	5.0885	6.7136	53.8958
1998	7.0000	3.0950	-	10.0950	6.0000	26.0000	-	5.0885	6.7136	53.8971
1999	7.0000	3.0880	-	10.0880	6.0000	25.9947	-	5.0707	6.6550	53.8084
2000	7.0000	3.0859	-	10.0859	6.0000	25.9947	-	5.0466	6.6256	53.7528
2001	7.0000	3.0792	-	10.0792	6.0000	25.0000	2.4000	5.0075	6.5799	55.0666
2002	7.0000	3.0786	-	10.0786	6.0000	25.0000	2.4000	5.9633	6.6957	56.1376
2003	7.5000	2.5774	-	10.0774	5.0000	25.0000	2.4000	5.9617	6.7957	55.2348
2004	8.5000	2.5768	-	11.0768	6.0000	25.0000	2.4000	5.9617	6.7957	57.2342

(a) Prior to 2001, the millage for libraries was included under the school district millages.

(b) Includes tax millages for the Muskegon Area Intermediate School District and for Muskegon Community College.

(c) Includes the general County tax millage and the special millages for the Muskegon County Museum and veteran's programs.

SOURCE: City of Muskegon Treasurer's Office

City of Muskegon

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent Of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Charge backs				Outstanding Delinquent Specific	Percent of Delinquent Taxes to Levy
						On Uncollected Delinquent Taxes	Outstanding Delinquent Personal	Outstanding Delinquent Specific	Percent of Delinquent Taxes to Levy		
1995	\$ 5,757,393	\$ 5,174,898	89.9%	\$ 546,056	\$ 5,720,954	\$ -	\$ 11,606	\$ 997	0.22%		
1996	6,650,150	5,727,915	86.1%	867,946	6,595,861	-	27,325	3,427	0.46%		
1997	6,814,119	5,983,967	87.8%	556,509	6,540,476	-	109,199	13,197	1.80%		
1998	6,793,669	6,074,967	89.4%	371,432	6,446,399	-	65,466	4,526	1.03%		
1999	6,925,862	6,185,473	89.3%	632,875	6,818,348	46,219	89,309	10,148	2.10%		
2000	7,378,653	6,631,358	89.9%	382,839	7,014,197	47,117	60,847	7,845	1.57%		
2001	7,449,191	6,625,670	88.9%	88,768	6,714,438	24,866	184,894	5,496	2.89%		
2002	7,922,898	7,036,846	88.8%	123,906	7,160,752	30,056	168,666	15,700	2.71%		
2003	8,095,194	7,201,599	89.0%	710,353	7,911,952	27,338	154,843	20,856	2.51%		
2004	8,292,451	7,230,231	87.2%	772,545	8,002,776	36,179	82,305	22,655	1.70%		

SOURCE: City of Muskegon Treasurer' Office

City of Muskegon

SPECIAL ASSESSMENT LEVIES AND COLLECTIONS

As of December 31, 2004

Year Levied	Amount of Original Assessment	Amount Collected to Date	Outstanding Balance	Percent Uncollected
Prior	\$	\$	\$	0.05%
1995	662,347	662,009	338	0.00%
1996	930,259	930,259	-	3.74%
1997	754,169	725,964	28,205	12.49%
1998	643,472	563,093	80,379	13.30%
1999	573,392	497,158	76,234	20.60%
2000	661,020	524,818	136,202	24.92%
2001	1,152,324	865,151	287,173	38.17%
2002	921,585	569,836	351,749	58.50%
2003	778,405	323,002	455,403	84.82%
2004	2,404,529	365,010	2,039,519	68.53%
	384,559	121,033	263,526	
Spread to taxes	-	-	443,954	n/a
Total	\$ 9,866,061	\$ 6,147,333	\$ 4,162,682	42.19%

SOURCE: City of Muskegon Treasurer's Office

City of Muskegon

STATEMENT OF BONDED INDEBTEDNESS

December 31, 2004

Bond Issue	Year Issued	Average Interest Rate (%)	Amount of Issue	Outstanding Balance	Principal Due 2005	Interest Due 2005	Final Maturity
Special Assessment Improvement (Sidewalks)	1996	4.273	\$ 1,155,000	\$ 25,000	\$ 25,000	\$ 1,100	2005
Muskegon County Wastewater Contract	1996	5.189	8,034,263	964,112 (a)	964,112	27,475	2005
City of Muskegon MTF Bonds	1997	4.290	1,950,000	685,000	215,000	28,781	2007
City of Muskegon MTF Bonds - Refunding	2002	2.844	2,245,000	1,545,000	370,000	37,475	2008
Muskegon County Wastewater Contract - Refunding	2002	3.281	6,990,000	3,815,544 (a)	116,862	187,564	2008
Special Assessment Improvement (Sidewalks)	1998	4.034	1,495,000	615,000	165,000	21,259	2009
State of Michigan Urban Land Assembly Loan	1999	0.000	1,276,900	976,900	150,000	-	2009
Special Assessment Improvement (Sidewalks)	2000	5.114	825,000	500,000	85,000	21,883	2010
Water Supply System Revenue Bonds	1993	5.430	5,465,000	900,000	-	40,500	2013
Capital Improving Bonds	2003	3.620	1,575,000	1,470,000	105,000	47,624	2016
DDA Refunding Bonds	2001	4.680	4,005,000	3,490,000	185,000	153,192	2018
DDA Promissory Note with Muskegon County	1989	0.000	1,000,000	1,000,000	-	-	2019
Water Supply System Revenue Bonds	1999	4.570	9,575,000	8,025,000	435,000	344,704	2019
Drinking Water State Revolving Fund (DWRF) Loan	2004	2.125	13,900,000	8,483,766	-	180,280	2019
Local Development Finance Authority Bonds (Smartzone)	2002	4.552	4,725,000	4,725,000	-	205,147	2025
			<u>\$ 64,216,163</u>	<u>\$ 37,220,322</u>	<u>\$ 2,815,974</u>	<u>\$ 1,296,984</u>	

(a) Estimated City's Share of Debt.

SOURCE: City of Muskegon Finance Department

City of Muskegon

STATEMENT OF LEGAL DEBT MARGIN (a)

December 31, 2004

State Equalized Valuation (SEV): **\$ 756,635,300 (b)**

Legal Debt Margin				
	Actual Net Debt	Maximum Percent of SEV	Debt Limit Amount	Legal Debt Margin
Outstanding Debt Subject to Limitation	<u>\$ 9,191,900</u>	<u>10.000%</u>	<u>\$ 75,663,530</u>	<u>\$ 66,471,630</u>
Outstanding Debt Not Subject to Limitation:				
Special Assessment Debt	2,610,000			
Revenue Bonds	18,408,766			
Michigan Transportation Fund Bonds	2,230,000			
Debt Issued for Pollution Abatement	<u>4,779,656</u>			
	<u>28,028,422</u>			
TOTAL INDEBTEDNESS	<u><u>\$ 37,220,322</u></u>			

(a) Act 279, Public Acts of Michigan, 1909, as amended, and the City Charter of the City provide that the net indebtedness of the City shall not exceed 10% of all assessed real and personal property in the City. Bonds which are not included in the computation of legal debt margin, according to Act 279, are:

- Special Assessment Bonds;
- Mortgage Bonds;
- Michigan Transportation Fund Bonds;
- Revenue Bonds;
- Bonds issued, or contracts or assessment obligations, incurred, to comply with an order of the Water Resources Commission or a court of competent jurisdiction;
- Bonds issued to acquire housing for which rent subsidies will be received under a contract with the United States Government;
- Obligations entered into under an intergovernmental self insurance contract or issued to pay premiums or to establish funds to self insure for losses;
- Bonds issued or assessments or contract obligations incurred for the construction, improvement, or replacement of a combined sewer overflow abatement facility;
- Other obligations incurred for water supply, sewage, drainage or other refuse, disposal projects necessary to protect the public health by abating pollution; and,
- Resources of a sinking fund pledged for the retirement of any outstanding bonds

(b) State Equalized Valuation (SEV) does not include assessments under the Industrial Facilities Tax (IFT), Commercial Facilities Tax (CFT), Neighborhood Enterprise Zone (NEZ), Commercial Enterprise Zone (CEZ), or Renaissance Zone (REZ) exemption programs which for 2004 amounted to \$72,704,317. The City's total 2004 assessed valuation (including IFT/CFT/NEZ/CEZ/REZ) was \$829,339,617.

SOURCE: Muskegon County Equalization Department and Finance Department

City of Muskegon

STATEMENT OF DIRECT AND OVERLAPPING DEBT

December 31, 2004

Direct Debt:

Revenue Bonds	\$ 17,408,766
Special Assessment Bonds	2,610,000
Intergovernmental Bonds	5,756,556
Michigan Transportation Fund Bonds	2,230,000
General Obligation Bonds	-
Component Unit Debt	9,215,000
	<u>37,220,322</u>

Less:

Revenue Bonds and Revenue Supported Intergovernmental Bonds	\$ 18,408,766	
Michigan Transportation Fund Bonds	2,230,000	
Special Assessment Debt	2,610,000	23,248,766
		<u>13,971,556</u>
NET DIRECT DEBT		23,248,766

Overlapping Debt:

	Debt Outstanding at 12/31/2004	% of SEV Within City	City Share of Debt Outstanding	
Muskegon School District	\$ 39,344,136	94.88%	\$ 37,329,716	
Orchard View School District	47,200,000	29.64%	13,990,080	
Reeths-Puffer School District	72,023,093	9.71%	6,993,442	
Muskegon Community College	9,985,000	17.32%	1,729,402	
County of Muskegon	25,510,000	17.32%	4,418,332	
	<u>\$ 194,062,229</u>		<u>\$ 64,460,973</u>	64,460,973

NET DIRECT AND OVERLAPPING DEBT \$ 78,432,529

	Per Capita Debt (a)	Ratio of Debt to SEV (b)
Net Direct Debt	\$ 348.37	1.85%
Net Direct and Overlapping Debt	\$ 1,955.68	10.37%

(a) Population equals 40,105.

(b) State equalized valuation (SEV) equals \$ 756,635,300

SOURCE: City of Muskegon Finance Department; Municipal Advisory Council of Michigan

City of Muskegon

**RATIO OF DEBT SERVICE FOR GENERAL BONDED DEBT
TO TOTAL GENERAL FUND EXPENDITURES AND OTHER USES**

Last Ten Fiscal Years

Fiscal Year	Contractual			Total Debt Service	Total General Fund Expenditures and Other Uses	Ratio of Debt Service to General Fund Expenditures and Other Uses
	Principal	Interest	Debt			
1995	\$ 50,000	\$ 36,255	\$ -	\$ 86,255	\$ 16,337,586	0.53%
1996	185,000	58,696	141,245	384,941	18,018,159	2.14%
1997	200,000	86,102	220,216	506,318	20,358,320	2.49%
1998	260,000	77,712	201,572	539,284	21,634,467	2.49%
1999	265,000	65,362	125,825	456,187	22,011,881	2.07%
2000	270,000	52,346	78,971	401,317	22,232,657	1.81%
2001	280,000	38,726	45,741	364,467	23,235,978	1.57%
2002	185,000	24,406	-	209,406	23,971,536	0.87%
2003	195,000	17,006	-	212,006	23,705,334	0.89%
2004	205,000	8,816	-	213,816	23,388,020	0.91%

SOURCE: City of Muskegon Finance Department

City of Muskegon
REVENUE BOND COVERAGE
Sewage Disposal System

Last Ten Fiscal Years

Fiscal Year	Gross Revenue (a)	Direct Operating Expenses (b)	Net Revenue Available For Debt Service	Debt Service Requirements		
				Principal	Interest	Total Coverage
1995	\$ 3,651,607	\$ 2,670,582	\$ 981,025	\$ 286,136	\$ 412,038	\$ 698,174 1.41
1996	2,940,704	2,468,476	472,228	285,725	385,367	671,092 0.70
1997	3,295,954	2,390,240	905,714	242,480	343,261	585,741 1.55
1998	3,790,903	2,355,408	1,435,495	515,185	261,692	776,877 1.85
1999	3,740,179	2,417,775	1,322,404	495,963	237,636	733,599 1.80
2000	4,089,381	2,236,111	1,853,270	421,516	216,776	638,292 2.90
2001	3,991,295	2,656,382	1,334,913	399,933	197,169	597,102 2.24
2002	4,039,448	2,726,975	1,312,473	458,918	137,622	596,540 2.20
2003	4,077,482	2,649,454	1,428,028	473,329	132,214	605,543 2.36
2004	4,096,412	3,038,939	1,057,473	455,179	110,520	565,699 1.87

For years in which "revenue bond coverage" is less than 1.00, the shortfall was made up either by use of net assets or by transfer in.

(a) "Gross Revenue" equals total operating revenues plus interest income.

(b) "Direct Operating Expenses" equal total operating expenses net of depreciation expense.

SOURCE: City of Muskegon Finance Department

City of Muskegon

REVENUE BOND COVERAGE

Water Supply System

Last Ten Fiscal Years

Fiscal Year	Gross Revenue (a)	Direct Operating Expenses (b)	Net Revenue Available For		Debt Service Requirements		
			Debt Service		Principal	Interest	Total
1995	\$ 3,275,905	\$ 2,009,728	\$ 1,266,177	\$ 65,000	\$ 312,309	\$ 377,309	3.36
1996	3,208,207	2,105,342	1,102,865	100,000	306,169	406,169	2.72
1997	3,478,112	2,115,442	1,362,670	150,000	296,989	446,989	3.05
1998	3,083,359	2,096,426	986,933	150,000	285,257	435,257	2.27
1999	3,579,929	2,463,597	1,116,332	215,000	409,391	624,391	1.79
2000	3,936,337	2,576,864	1,359,473	350,000	494,206	844,206	1.61
2001	4,263,107	3,203,080	1,060,027	370,000	471,301	841,301	1.26
2002	4,051,015	3,030,959	1,020,056	390,000	453,666	843,666	1.21
2003	4,183,015	3,539,690	643,325	405,000	417,559	822,559	0.78
2004	5,016,267	3,186,067	1,830,200	420,000	411,867	831,867	2.20

For years in which "revenue bond coverage" is less than 1.00, the shortfall was made up either by use of net assets or by transfer in.

(a) "Gross Revenue" equals total operating revenues plus interest income.

(b) "Direct Operating Expenses" equal total operating expenses net of depreciation expense.

SOURCE: City of Muskegon Finance Department

City of Muskegon

RATIO OF NET BONDED DEBT TO ASSESSED VALUE

NET BONDED DEBT PER CAPITA

Last Ten Fiscal Years

Fiscal Year	Population	Assessed Value (1)	Gross Bonded Debt	Less Debt Service Funds	Payable From Enterprise Revenues and Assessments	Net Bonded Debt	Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1995	40,283	\$ 533,369,306	\$ 35,971,939	\$ 1,267,264	\$ 27,059,441	\$ 7,645,234	1.4%	\$ 189.79
1996	40,283	574,549,100	37,014,462	1,946,649	27,111,865	7,955,948	1.4%	197.50
1997	40,283	603,484,900	35,001,068	2,199,516	26,050,247	6,751,305	1.1%	167.60
1998	40,283	614,982,400	35,483,833	1,918,272	25,786,747	7,778,814	1.3%	193.10
1999	40,283	676,710,100	39,169,600	2,407,563	30,160,507	6,601,530	1.0%	163.88
2000	40,283	724,062,800	36,697,731	2,974,730	27,387,710	6,335,291	0.9%	157.27
2001	40,105	812,923,900	32,429,103	981,748	21,797,203	9,650,152	1.2%	240.62
2002	40,105	826,017,850	34,024,914	250,798	19,623,014	14,151,102	1.7%	352.85
2003	40,105	839,041,112	31,778,823	153,955	19,266,923	12,357,945	1.5%	308.14
2004	40,105	829,339,617	37,220,322	-	25,798,422	11,421,900	1.4%	284.80

(1) See exhibit titled "Assessed and Estimated Actual Value of Taxable Property".

SOURCE: City of Muskegon Finance Department and Muskegon County Equalization Department

City of Muskegon

PROPERTY VALUES, CONSTRUCTION ACTIVITY AND BANK DEPOSITS

Last Ten Fiscal Years

Year	New Construction				Repairs and Additions				Estimated Property Values			
	Industrial and Commercial		Residential		Industrial and Commercial		Residential		Residential		Non Residential	
	Permits	Value	Permits	Value	Permits	Value	Permits	Value	Value			
1995	12	\$ 2,477,434	30	\$ 5,855,005	82	\$ 5,855,005	846	\$ 2,714,612	\$ 16,902,056	\$ 400,193,800	\$ 557,819,012	
1996	10	11,208,589	30	2,540,100	76	8,460,306	895	2,371,656	24,580,651	420,036,700	592,273,500	
1997	9	6,081,963	24	2,266,142	105	14,564,170	705	2,658,001	25,570,276	440,078,000	628,265,800	
1998	12	8,192,401	56	4,598,023	186	10,159,958	729	2,319,745	25,270,127	475,647,400	610,081,800	
1999	11	3,659,209	53	4,386,560	136	8,660,948	686	2,206,456	18,913,173	526,466,800	661,855,000	
2000	16	11,827,076	70	6,853,824	124	18,374,394	649	2,439,629	39,494,923	591,609,562	856,516,038	
2001	8	3,736,102	37	14,035,551	101	5,021,890	747	3,259,006	26,052,549	675,090,378	950,757,422	
2002	6	3,696,711	72	17,619,093	125	14,849,768	805	3,539,602	39,705,174	718,824,700	933,211,000	
2003	4	1,720,000	45	4,921,925	154	10,695,552	858	4,032,068	21,369,545	776,050,245	912,715,275	
2004	7	1,241,000	38	4,686,880	106	27,526,374	1001	4,508,821	37,963,075	777,025,799	890,774,234	

NOTE: Due to bank mergers, local bank deposit information is not readily available.

SOURCE: City Inspections Department and City Assessor's Office/Muskegon County Equalization Department

City of Muskegon

DEMOGRAPHIC STATISTICS

December 31, 2004

DATE OF INCORPORATION

As Village	July 8, 1861
As City of Fourth Class	March 27, 1869
As Home Rule City	October 6, 1919

FORM OF GOVERNMENT

Commission-Manager

AREA

18.99 square miles

MILES OF STREETS

196.95

NUMBER OF STREETLIGHTS

3,111

FIRE PROTECTION

Number of stations	3
Number of firefighter and officer positions	41

POLICE PROTECTION

Number of stations	1
Number of sworn officer positions	76

WATER SERVICE

Number of consumers	14,917
Average daily consumption	8,870,000 gallons per day
Water mains	194.14

SEWER SERVICE

Sanitary sewers	178.02 miles
Storm sewers	178.61 miles

LEISURE SERVICES

Number of parks	64 (701 acres)
Lake Michigan beaches	119 acres

FULL-TIME POSITIONS

Classified service	253
Exempt (management)	16
Total	269

ELECTIONS

Number of registered voters	25,261
Number of votes cast:	
Last general election	14,109
Last city election	4,324
Percentage of registered voters voting:	
Last general election	56%
Last city election	17%

City of Muskegon

DEMOGRAPHIC STATISTICS

December 31, 2004

POPULATION

2000 Census	40,105
1990 Census	40,283
1980 Census	40,823
1970 Census	44,631

MEDIAN AGE

32.3

AGE DISTRIBUTION

Under 18 years	10,340
18-65 years	24,788
65 years and over	4,977

RACE AND ORIGIN

White	24,309
Black	12,701
American Indian, Eskimo, or Aleut	418
Asian or Pacific Islander	195
Hispanic	1,078
Other	1,404

HOUSING UNITS

Total units	16,019
Owner occupied	8,070
Renter occupied	6,700
Vacant	1,249

HOUSEHOLDS BY TYPE

Total households	14,569
Families	8,535
Nonfamily households	6,034

ESTIMATED HOUSEHOLD INCOME

\$75,000 or more	5.0%
\$50,000 to \$74,999	8.0%
\$35,000 to \$49,999	13.0%
\$25,000 to \$34,999	18.0%
\$15,000 to \$24,999	22.0%
\$7,500 to \$14,999	26.0%
Under \$7,500	8.0%

FIVE LARGEST EMPLOYERS

Mercy General Hospital	2,017
Hackley Hospital	1,300
Muskegon County	1,200
Muskegon Public Schools	1,105
Sappi Paper Company	594

OCCUPATION

White Collar	48.0%
Blue Collar	52.0%

City of Muskegon

DEMOGRAPHIC STATISTICS

December 31, 2004

UNEMPLOYMENT RATE (CITY)

1995	8.6%
1996	8.1%
1997	6.6%
1998	5.8%
1999	6.2%
2000	6.1%
2001	9.3%
2002	12.1%
2003	13.9%
2004	11.1%

EDUCATION LEVEL

High School Diploma or Higher	68.7%
College Degree or Higher	8.2%

MUSKEGON PUBLIC SCHOOL ENROLLMENT

1996-1997	7,022
1997-1998	7,116
1998-1999	6,954
1999-2000	6,788
2000-2001	6,761
2001-2002	6,603
2002-2003	6,327
2003-2004	6,088
2004-2005	5,634

SOURCES: City of Muskegon Operating Departments, U.S. Census Bureau, Muskegon Area Intermediate School District, Michigan Department of Career Development.

**City of Muskegon
LABOR AGREEMENTS
December 31, 2004**

	<u>Expiration</u>	<u>Members</u>
Muskegon Firefighters AFL-CIO Local #370 Firefighters	12/31/2004	41
Command Officers Association of Michigan Police Command Officers	12/31/2006	15
Police Officers' Labor Council Police Patrol Officers	12/31/2006	61
Service Employees International Union Parks & DPW Employees	12/31/2004	76
Clerical Employees	12/31/2005	27

SOURCE: City of Muskegon Finance Department

City of Muskegon

SCHEDULE OF INSURANCE IN FORCE

December 31, 2004

Type of Coverage	Policy Period		Annual Premium	Details of Coverage	Liability Limits
	From	To			
<u>Coverages Provided Through the Michigan Municipal Risk Management Authority (MMRMA):</u>					
			\$ 846,246	Total Premium for all MMRMA Coverages	
AUTO FLEET (PHYSICAL)	3/1/2004	2/28/2005		Auto and Fleet Insurance	Comprehensive: Actual Cash Value/\$1000 Deductible Collision: Actual Cash Value/\$1,000 Deductible
BOILER & MACHINERY	3/1/2004	2/28/2005		Boiler and Machinery	\$500,000 Limit per Accident
EMPLOYEE BLANKET BOND	3/1/2004	2/28/2005		Honesty & Faithful Performance	Honesty Blanket Bond: \$400,000 Faithful Performance Bond: \$100,000
CITY PROPERTY	3/1/2004	2/28/2005		Fire and building contents	Building and contents valued at \$56,867,715; \$5,000 deductible
LIABILITY COVERAGES	3/1/2004	2/28/2005		General Liability Police Liability Auto Liability Public Officials' Liability	\$15,000,000 per occurrence; \$100,000 retention
INLAND MARINE	3/1/2004	2/28/2005		City owned contractors equipment	Contractors Equipment \$1,600,850
<u>Coverages Provided Through Other Insurers:</u>					
FIDUCIARY LIABILITY Stewart Smith/McAlear Associates (Jerviss Fethke)	3/1/2004	2/28/2005	6,750	Fiduciary Liability Coverage for Members of Retirement System Boards	\$1,000,000 per occurrence; \$10,000 deductible
WORKERS' COMPENSATION Michigan Municipal League Workers' Compensation Fund	7/1/2004	6/30/2005	285,424	Work related injuries and illnesses	As determined by state law
STORAGE TANK LIABILITY Zurich Insurance Co. (IBEX)	2/22/2004	2/20/2005	350	City owned storage tanks	\$1,000,000 each occurrence \$1,000,000 annual aggregate

SOURCE: City of Muskegon Finance Department

City of Muskegon
SALARIES OF PRINCIPAL OFFICIALS
December 31, 2004

Mayor	\$ 7,500
City Commissioners	6,000
City Manager	108,414

Range I-A	67,302 - 89,736
Director of Public Safety	

Range I	62,910 - 83,381
Assistant City Manager	
Finance Director	
Police Chief	
Public Works Director	

Range II	58,097 - 77,463
Community & Economic Development Director	
Fire Chief	
Leisure Services Director	

Range II-B	55,658 - 74,140
City Engineer/Deputy Director of Public Works	

Range III	53,220 - 70,817
Assistant Police Chief	
City Clerk	
City Treasurer	
Information Systems Director	
Civil Service/Personnel Director	
Deputy Director of Public Safety for Fire Services	

Range IV	45,844 - 61,125
Assistant Finance Director	
Assistant City Engineer	
Deputy Director of Community & Economic Development	
Neighborhood & Construction Services Director	
Income Tax Director	

Range V	43,878 - 58,507
Affirmative Action Director	
Community & Neighborhood Services Director	
Water Filtration Plant Supervisor	

SOURCE: City of Muskegon Finance Department

**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

March 7, 2005

City Commission
City of Muskegon
Muskegon, Michigan

We have audited the financial statements of City of Muskegon as of and for the year ended December 31, 2004 and have issued our report thereon dated March 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Muskegon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Muskegon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

BRICKLEY DELONG

City Commission
March 7, 2005
Page 2

This report is intended solely for the information of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

March 7, 2005

City Commission
City of Muskegon
Muskegon, Michigan

Compliance

We have audited the compliance of the City of Muskegon with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The City of Muskegon's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Muskegon's management. Our responsibility is to express an opinion on the City of Muskegon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Muskegon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Muskegon's compliance with those requirements.

In our opinion, the City of Muskegon complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

City Commission
March 7, 2005
Page 2

Internal Control Over Compliance

The management of the City of Muskegon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Muskegon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLLC

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2004

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2004	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue December 31, 2004	Note
U.S. Department of Agriculture							
Passed through the Michigan Department of Natural Resources							
Tree Planting Program							
CFG 04-17	10.664	\$ 4,000 \$	- \$	4,000 \$	4,000 \$	-	
U.S. Department of Housing and Urban Development							
Direct programs							
Community Development Block Grant	14.218						
B-03-MC-26-0026		1,217,000	(3,472)	865,508	868,980	-	
B-04-MC-26-0026		1,212,000	-	163,983	386,460	222,477	
Program Income		116,055	-	116,055	116,055	-	
Total Community Development Block Grant		2,545,055	(3,472)	1,145,546	1,371,495	222,477	
Direct programs							
Home Investment Partnership Program	14.239						
M-96-MC-26-0215		454,000	-	-	75	75	
M-97-MC-26-0215		444,000	7,563	7,608	108	63	
M-99-MC-26-0215		514,000	246,108	246,108	-	-	
M-00-MC-26-0215		514,000	26,582	163,808	283,102	145,876	
M-01-MC-26-0215		572,000	38,324	38,433	109	-	
M-02-MC-26-0215		133,342	6,885	59,807	52,922	-	
M-03-MC-26-0215		340,111	9,885	70,731	174,698	113,852	
M-04-MC-26-0215		337,937	-	7,230	76,509	69,279	
Program Income		469,503	-	469,503	176,737	(292,766)	
Total Home Investment Partnership Program		3,778,893	335,347	1,063,228	764,260	36,379	
Total U.S. Department of Housing and Urban Development		6,323,948	331,875	2,208,774	2,135,755	258,856	

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended December 31, 2004

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2004	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue December 31, 2004	Note
U.S. Department of Justice							
Passed through the Michigan Family Independent Agency							
Juvenile Justice Grant	16.548						
431B3001915		\$ 24,990	\$ 3,065	\$ 14,228	\$ 11,163	\$ -	
DP-05-61001		90,000	-		11,685	11,685	
Total Juvenile Justice Grant		114,990	3,065	14,228	22,848	11,685	
Passed through the City of Holland							
WEMET Multi-Jurisdictional Drug	16.579						
Enforcement CO-OP							
70834-503B		40,337	11,475	40,337	28,862	-	
70834-604B		35,752	-	-	13,148	13,148	
Total WEMET Multi-Jurisdictional							
Drug Enforcement CO-OP		76,089	11,475	40,337	42,010	13,148	
Direct programs							
Law Enforcement Block Grant	16.592						
2002-LB-BX-2836		62,710	(39,783)	-	39,783	-	
2003-LB-BX-2769		47,639	(47,639)	-	26,083	(21,556)	
2004-LB-BX-1240		23,331	-	23,331	-	(23,331)	
Total Law Enforcement Block Grant		133,680	(87,422)	23,331	65,866	(44,887)	
Passed through the Urban League of Greater Muskegon							
Weed and Seed	16.595						
2003-WS-QX-0711		16,375	-	7,485	7,485	-	
Direct programs							
Bulletproof Vest Partnership Grant	16.607						
2003 Grant		2,161	-	221	221	-	
Total U.S. Department of Justice		343,295	(72,882)	85,602	138,430	(20,054)	

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended December 31, 2004

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2004	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue December 31, 2004	Note
U.S. Department of Transportation, Federal Highway Administration							
Passed through the Michigan Department of Transportation Highway Planning and Construction Program	20.205						
Proj STP0161 (224) Fed Item TT0096 Contract 02-5431		\$ 200,000	\$ 10,527	\$ 10,527	\$ -	-	
Proj STP0361 (020) Fed Item HH3544 Contract 03-5204		366,000	-	14,470	14,470	-	2
Proj STP0261 (338) Fed Item RR3306 Contract 03-5336		240,000	-	137,178	240,000	102,822	
Proj STP0461 (308) Fed Item HH3843 Contract 04-5014		355,830	-	229,601	229,601	-	2
Proj STP0461 (311) Fed Item HH3958 Contract 04-5202		552,354	-	535,783	535,783	-	2
Total U.S. Department of Transportation, Federal Highway Administration		1,714,184	10,527	927,559	1,019,854	102,822	
Environmental Protection Agency							
Passed through Michigan Department of Environmental Quality Drinking Water State Revolving Fund Project 7142-01	66.468	13,900,000	-	4,500,050	4,500,050	-	
U.S. Federal Emergency Management Administration							
Direct programs							
Assistance to Firefighters Grant Program EMW-2003-FG-11430	83.554	129,875	-	117,576	117,576	-	
U.S. Department of Health and Human Services							
Passed through Michigan Department of Social Services Enterprise Community - Title XX Human Service Grant EC/EZ-95-61001	93.585	2,947,368	34,934	45,693	21,912	11,153	
TOTAL FEDERAL ASSISTANCE		\$ 25,362,670	\$ 304,454	\$ 7,889,254	\$ 7,937,577	\$ 352,777	

Notes:

1. See the financial statements footnotes for accounting policies used in preparing this schedule.
2. These programs are administered by the Michigan Department of Transportation and federal compliance reports of these programs are included in the single audit of MDOT.

City of Muskegon
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2004

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Muskegon.
2. No reportable conditions in internal control were disclosed by the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the City of Muskegon were disclosed during the audit.
4. No reportable conditions in internal control were disclosed by the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the City of Muskegon expresses an unqualified opinion.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Housing and Urban Development</i> Home Investment Partnership Program	14.239
<i>U.S. Department of Transportation</i> Highway Planning and Construction Program	20.205
<i>Environmental Protection Agency</i> Drinking Water State Revolving Fund Program	66.468
<i>U.S. Department of Federal Emergency Management Administration</i> Assistance to Firefighters Grant Program	83.554

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Muskegon was not determined to be a low-risk auditee.

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

NONE

C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

SUPPLEMENTAL INFORMATION

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

March 7, 2005

City Commission
City of Muskegon
Muskegon, Michigan

We have audited the financial statements of the City of Muskegon as of and for the year ended December 31, 2004 and have issued our report thereon dated March 7, 2005. Our audit was made primarily for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on page 151 is provided for purposes of additional analysis and is not a required part of the financial statements or the accompanying Schedule of Expenditures of Federal Awards. Such supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements of the City of Muskegon and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Brickley DeLong, PLLC

City of Muskegon
**SCHEDULE OF RECONCILIATION OF REVENUES FROM FEDERAL SOURCES
PER FINANCIAL STATEMENTS AND EXPENDITURES PER SINGLE AUDIT
REPORT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
For the year ended December 31, 2004

The following is a reconciliation of federal revenues as reported on page 36 of the City of Muskegon financial statements for the year ended December 31, 2004 and federal expenditures per the Schedule of Expenditures of Federal Awards on page 147 of this single audit report.

Federal revenues per City of Muskegon financial statements
for the year ended December 31, 2004 (page 36)

General Fund	\$ 233,158
Major Street and Trunkline Fund	779,854
Other Governmental Funds	<u>2,131,723</u>
	3,144,735
 Plus program income	 292,792
 Plus federal loans	 <u>4,500,050</u>
 Federal assistance expenditures and operating transfers out per Schedule of Expenditures of Federal Awards (page 147)	 <u><u>\$ 7,937,577</u></u>

CLIENT DOCUMENTS

Affirmative Action
(231)724-6703
FAX (231)722-1214

Assessor
(231)724-6708
FAX (231)726-5181

Cemetery
(231)724-6783
FAX (231)726-5617

City Manager
(231)724-6724
FAX (231)722-1214

Civil Service
(231)724-6716
FAX (231)724-4405

Clerk
(231)724-6705
FAX (231)724-4178

Comm. & Neigh.
Services
(231)724-6717
FAX (231)726-2501

Engineering
(231)724-6707
FAX (231)727-6904

Finance
(231)724-6713
FAX (231)724-6768

Fire Department
(231)724-6792
FAX (231)724-6985

Income Tax
(231)724-6770
FAX (231)724-6768

Info. Technology
(231)724-4126
FAX (231)722-4301

Inspection Services
(231)724-6715
FAX (231)728-4371

Leisure Services
(231)724-6704
FAX (231)724-1196

Mayor's Office
(231)724-6701
FAX (231)722-1214

Planning/Zoning
(231)724-6702
FAX (231)724-6790

Police Department
(231)724-6750
FAX (231)722-5140

Public Works
(231)724-4100
FAX (231)722-4188

Treasurer
(231)724-6720
FAX (231)724-6768

Water Billing
(231)724-6718
FAX (231)724-6768

Water Filtration
(231)724-4106
FAX (231)755-5290



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

March 7, 2005

U.S. Department of Housing and Urban Development
Detroit, Michigan

City of Muskegon respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended December 31, 2003 dated March 15, 2004.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

There were no findings related to the financial statements which were required to be reported.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

2003 Finding No. 1: U.S. Department of Housing and Urban Development

HOME Investment Partnership Program—CFDA No. 14.239

Grant No. M98MC2-60215 Grant period: June 1, 1998 through May 31, 1999

Grant No. M01MC2-60215 Grant period: June 1, 2001 through May 31, 2002

Grant No. M02MC2-60215 Grant period: June 1, 2002 through May 31, 2003

Community Development Block Grant - Entitlement Grant—CFDA No. 14.218

Grant No. B03MC2-60026 Grant period: June 1, 2003 through May 31, 2004

Condition: In five contract files tested, the lowest bidder was not selected for the project. The files did not contain required documentation supporting the rejection of the lowest bid.

Recommendation: Policies and procedures need to be put in place to provide reasonable assurance that contract files contain all required documentation. Periodic reviews need to be conducted to determine that contract files contain all required documentation.

Current Status: The recommendation was implemented. **No** similar finding was reported during the single audit for the year ended December 31, 2004.

U.S. Department of Housing and Urban Development
March 7, 2005
Page 2

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

REPORTABLE CONDITIONS

There were **no** reportable conditions in relation to major federal award programs.

Sincerely,

A handwritten signature in dark ink, appearing to read 'T. Paul', with a large, stylized loop at the end.

Timothy J. Paul
Finance Director

Affirmative Action
(231)724-6703
FAX (231)722-1214

Assessor
(231)724-6708
FAX (231)726-5181

Cemetery
(231)724-6783
FAX (231)726-5617

City Manager
(231)724-6724
FAX (231)722-1214

Civil Service
(231)724-6716
FAX (231)724-4405

Clerk
(231)724-6705
FAX (231)724-4178

Comm. & Neigh.
Services
(231)724-6717
FAX (231)726-2501

Engineering
(231)724-6707
FAX (231)727-6904

Finance
(231)724-6713
FAX (231)724-6768

Fire Department
(231)724-6792
FAX (231)724-6985

Income Tax
(231)724-6770
FAX (231)724-6768

Info. Technology
(231)724-4126
FAX (231)722-4301

Inspection Services
(231)724-6715
FAX (231)728-4371

Leisure Services
(231)724-6704
FAX (231)724-1196

Mayor's Office
(231)724-6701
FAX (231)722-1214

Planning/Zoning
(231)724-6702
FAX (231)724-6790

Police Department
(231)724-6750
FAX (231)722-5140

Public Works
(231)724-4100
FAX (231)722-4188

Treasurer
(231)724-6720
FAX (231)724-6768

Water Billing
(231)724-6718
FAX (231)724-6768

Water Filtration
(231)724-4106
FAX (231)755-5290

MUSKEGON



West Michigan's Shoreline City
www.shorelinecity.com

CORRECTIVE ACTION PLAN

March 7, 2005

U.S. Department of Housing and Urban Development
Detroit, Michigan

The City of Muskegon respectfully submits the following Corrective Action Plan for the year ended December 31, 2004.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: December 31, 2004

The findings from the Schedule of Findings and Questioned Costs for the year ended December 31, 2004 provided **no** findings in either Section B or Section C. Accordingly, there are **no** matters requiring corrective action as shown below.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

There were **no** compliance findings and **no** reportable conditions.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

There were **no** compliance findings and **no** reportable conditions in relation to the major federal award programs.

If the U.S. Department of Housing and Urban Development has questions regarding this plan, please call Timothy J. Paul at (231) 724-6709.

Sincerely,

Timothy J. Paul
Finance Director